

NEWS SUMMARY

GENERAL

Israel to pull out on June 13

Israel will pull its forces out of Southern Lebanon by June 13, the Begin Government announced yesterday. Mr. Ezer Weizman, Defence Minister, and Lieutenant-General Rafael Eilan, Chief of Staff, are to work out details of the withdrawal with United Nations staff.

The Sons of Lebanon Organisation, a previously unknown group, claimed responsibility for Saturday's attack at Orly Airport, Paris, in which a French policeman and three guerrillas died. It said that its target was a group of Israeli army officers, about to board an El Al flight for Israel. Page 3

Mr. David Steel, the Liberal Leader, warned the Prime Minister that there was no prospect of renewing the Lib-Lab pact beyond the summer. But the Liberals would not withdraw from the agreement before the summer recess at the end of July. Back Page

Rhodesian police arrested 84 blacks after violence erupted between supporters of the rival nationalist movements led by the Rev. N. Sibhelo and Bishop Abel Muzorewa in Salisbury's main black township. Page 2

Oil from the wrecked Greek tanker Eleni V. started oozing ashore at Milnport, Cliftonville and Broadstairs. A five-mile slick was spotted near the Convent Sands, drifting north about two miles off the Kent coast. Thanet Council promised: "It should not be too difficult to clear. We will have the beaches clear by next week-end's Bank Holiday."

Mario Andretti of the U.S. went to the top of the world drivers' championship after winning the Belgian Grand Prix in a Lotus, with his team-mate Ronnie Peterson of Sweden, second. Ferrari took third and fourth places, with Argentina's Carlos Reutemann ahead of Gilles Villeneuve of Canada.

The Rome newspaper 11 Messaggero defied an official news black-out and published part of a message claiming to be from the Red Brigades, murderers of ex-Premier Aldo Moro. It said that Christian Democrat leaders would be "neutralised with efficiency at the right time."

A retired rear-admiral plans to make the first man-powered flight across the English Channel next year in a two-seat pedal flying machine. Admiral Nicholas Goodhart, 58, who invented the mirror-rod landing system for aircraft carriers during the Second World War, starts trials on his Newbury Manlyer this week.

Two Soviet United Nations officials were arrested in New York on spy charges and will appear in court on May 30, said the Federal Bureau of Investigation. Page 2

Cargo ship anchored in Falmouth harbour, Cornwall, was boarded by police investigating a suspected mutiny by the mainly Asian crew.

South Pole had its warmest April on record, with average temperature of minus 50.

Premium Bond £50,000 prize goes to Wandsworth, London holder of No. 2KZ 158400.

Birmingham policeman died in hospital after two panda cars collided.

Two teenage Army cadets were drowned in a swimming race at Loch Morlich, near Aviemore, Scotland.

BUSINESS

Britain to keep IMF credit

THE GOVERNMENT is to retain the \$4.1bn standby credit from the International Monetary Fund until January 2 next year—the date originally set for its termination. Treasury officials are thought to have agreed new terms for the credit with an IMF team in London. Back Page

BRITISH LEYLAND is pressing ahead with plans for a new £27m aluminium foundry and is holding talks with private sector companies about funding the project. Birmid Qualcast may be a partner in the scheme. Back Page

INFLATION higher than the Government's estimated 7 per cent is forecast by the Charterhouse Group. As a result, there would be a £1bn increase in tax revenue, which would reduce the public sector borrowing requirement from the forecast £2.5bn to nearer £1.5bn. The group's estimates contrast sharply with other City commentators' fears that the Government would exceed its expected borrowing requirement. Page 6

PLANS for strike action on construction sites in protest against a pay offer have been countered by the largest union involved in the building and civil engineering national agreement. The Union of Construction, Allied Trades and Technicians has instructed members to stay at work and ignore action planned by the Transport and General Workers' Union. Page 5

INVESTMENT of about £200m is planned by the National Coal Board for colliery developments. These include a new "super pit" in South Wales, an underground pit in Scotland, and developments in existing pits. About 3,000 miners will be employed at the new collieries. Page 4

NGA warning to members

FOURTEEN print workers who refused to accept the weekend report for work at The Observer will face disciplinary measures by their union and the loss of all their Fleet Street work, the National Graphical Association's governing council has warned. Page 5

PEOPLE are now slightly more cautious about the future than they were immediately after the Spring Budget, according to a survey of consumer confidence carried out for the Financial Times. But long-term trends point to a further rise in consumer spending later this year. Page 5

FURTHER deterioration of corporate profits growth among industrial companies during the first 10 months of last year is shown in the latest Financial Times survey. Trading profits of 177 companies covered increased on average by 18 per cent. Page 6

CBI move on form-filling

THE CBI has called for the setting up of a standing committee to watch over the Government's collection of information. The move follows complaints from trade and industry about the quantity of form-filling needed at present to supply official statistical data. Page 5

PROPOSALS to cut the number of statistics issued with monthly UK vehicle registration figures are being considered by the Society of Motor Manufacturers and Traders. Page 5

SHOP STEWARDS representing 45,000 Imperial Chemical Industries process workers have rejected a pay offer on the eve of resumed national wage talks in London. Page 5

NATIONAL SAVINGS increased in the five weeks to the start of this month to £137.4m. Page 4

REFUGEES TELL OF WIDESPREAD KILLINGS

Paratroopers have gained full control of Kolwezi

By ROBERT MAUTHNER, Paris, and MARK WEBSTER, Kinshasa

Reports from French and Belgian troops in Kolwezi yesterday suggested that they had regained control of the town from rebel forces.

More than half the estimated white population of 3,000 in the southern Zaire province of Shaba are expected to be back in Europe by this morning.

Yesterday the French Defence Ministry said French paratroopers had wiped out the last big pocket of rebel resistance in Kolwezi by occupying a factory where 200 rebels were holding out.

The Ministry said the French troops, in co-operation with the Belgian paratroopers who followed them into the town late on Friday, were searching outlying areas for remaining Europeans. Two paratroopers were killed and several injured.

Yesterday France was still playing down differences over the timing of the initial French paratroop drop early on Friday. But the Belgian officials repeated that the French had "wider terms of reference." As far as Belgium was concerned, the humanitarian evacuation would be ended with in 72 hours, or by tomorrow morning.

Reports reaching Kinshasa from Kolwezi speak of mass killings and looting. European refugees said although there had been many Zairean casualties, whites had been sought out by the rebels—whether in reprisal for European intervention

Europeans volunteer to stay behind

By OUR FOREIGN STAFF

EUROPEAN REFUGEES from Kolwezi arrived in Kinshasa and Brussels yesterday with harrowing tales of systematic and widespread killing by rebel forces.

At Brussels King Baudouin awaited the survivors. Many of the exhausted passengers, mostly Belgian but also French, Italian, Greek and British, left behind relatives who were either dead or missing.

Some Europeans have volunteered to stay in Kolwezi, where the killing of civilians started on Wednesday. French paratroopers landed in the town early on Friday. Belgian troops secured the airport on the same night.

The refugees spoke of systematic killing, rape, the mutilation of bodies and, in one case, of 33 whites including women and children being herded into a tiny room and machine-gunned to death.

Child shot

Reporters who visited Kolwezi on Saturday were taken to the scene. Corpses lay in a tangled heap. A child of about three had been shot in the head.

Most of the refugees blamed the rebels for the atrocities but there were persistent reports from Kolwezi that some of the killing had been carried out by soldiers of the Zaire army. These could not be confirmed.

Reuters reported from the nearby town of Kamina that Belgian officers said snarled French paratroopers killed 82 fleeing whites in Kolwezi. The officers, one a paratrooper and the other an air force man, said the dead were five Rhodesians and one Belgian.

One of two British plumbers who survived the massacre of Europeans said he had stood hiding in the hallway of a house while rebel troops dragged people out.

Mr. Mike Brian, who was working with a Belgian company said: "There were women and children screaming. The rebels threw two bombs in through the window. There were lots of screams and shouts and pleas for mercy. Then there were single shots from a rifle. The bodies of 33 Europeans and Zaireans were later found in the house."

Mr. Brian said he and another Englishman were taken prisoner by the rebels and kept in a former army barracks for two days until the Continued on Back Page

EEC backs British call on reflation

By GUY DE JONQUIERES, COMMON MARKET CORRESPONDENT

BRUSSELS, May 21.

THE BRITISH Government's efforts to persuade its EEC partners to agree on a programme of concerted reflationary measures, to which countries with strong payments positions would make the biggest contributions, have received the backing of the European Commission.

In a paper to be discussed by EEC Finance Ministers in Brussels tomorrow, Mr. Francois Xavier Ortoli, Commissioner for Economic Affairs, argues that by acting together, the Nine could achieve perceptibly faster growth with less budgetary and payments strains than if each country acted in isolation.

The paper, drawn up in close consultation with each of the Ministers, suggests that Britain could take some modest additional measures to stimulate its economy towards the end of this year if a joint programme were agreed.

But there would be no room for further reflation in the UK this year without such an agreement. The Commission forecasts that if present policies remain unchanged, the EEC's average growth rate will be between 3 and 3.5 per cent in the middle of next year.

This is far short of the 4.5 per cent target set by the Governments of the EEC when they met in Copenhagen early last month.

Manoeuvre

The paper attempts only a broad assessment of the relative contribution which each country could make to a co-ordinated reflation programme, listing them in descending order according to their "room for manoeuvre."

Not surprisingly, the list is headed by West Germany, followed by the Benelux countries, with Italy at the bottom.

Dr. Guenther's remarks all concerned 1978, but it is clear that in its analysis the Government is bound to consider what basis there may be for an earlier economic boost.

Healey calls for restraint after Stage Three ends

By PHILIP BASSETT, LABOUR STAFF

LABOUR'S GENERAL election plans and its desire for union co-operation for a fourth round of wage restraint were firmly linked yesterday by Mr. Denis Healey, Chancellor of the Exchequer.

He told 1,700 delegates from the Union of Post Office Workers at a pre-conference rally in Blackpool that the Government and the unions must find an answer to the problem of controlling earnings levels by the end of Stage Three in nine weeks' time.

Because of uncertainty surrounding the next wage policy and the prospect of an election this year, the Government will within the UPW to postpone decisions on pay until later in the year. The conference will this week consider an emergency motion calling for a special conference before their next settlement on January 1, 1979.

Mr. Healey said that the forthcoming election was going to be "very important indeed." In an appeal for wage moderation before the election he said: "I believe that we can win this election, but we can only win it if the men and women throughout the country, and particularly those in the trade union movement, who showed common sense and patriotism through the most difficult time can show the same common sense and patriotism when things are getting a little better."

He added: "We must come out with an answer which is honest, which makes sense and which will work over the next 12 months."

People must also "buy British, sell British and make British best" this year to reduce unemployment and keep inflation down. If the £2,000m new research packages after the Budget went on, British goods, it would create more jobs. If it went on foreign goods all it would do would be to create jobs in Japan, Germany, France and Italy.

Unions warning

The election would be held "in the near future," he said. Trade union activists, however, and a number of union general secretaries, including Mr. Moss Evans of the Transport Workers and Mr. Joe Gormley of the miners' union have warned the Government that to continue the present unilateral incomes policy into the next wage round will hurt Labour's chances at the polls.

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He added: "We must come out with an answer which is honest, which makes sense and which will work over the next 12 months."

Vauxhall plans to produce British version of Rekord

By TERRY DODSWORTH, MOTOR INDUSTRY CORRESPONDENT

VAUXHALL MOTORS, the UK subsidiary of General Motors, is planning to invest in production facilities to build a British version of the Opel Rekord, the large executive saloon introduced last year by its sister company in Germany.

"We are going to have some pretty fierce arguments on it but if we are concerned with keeping inflation down we ought to be able to find an answer that works even if it is not a perfect one. It is very, very important that we find an answer by August."

If the Government and the unions wanted to keep inflation down, they should decide how much wage costs could rise next year and how they could make sure that under collective bargaining there was enough flexibility to deal with the wage anomalies that had developed in the last three years of pay policy.

They must ensure that the public sector got a fair deal, and in particular those areas of it where it was difficult to make productivity agreements.

Inflation fall

Mr. Healey told the union that "a superb job" had been made of keeping increases in wage costs down in the last 12 months. As a result of that and the rise in the pound, inflation had fallen to well over half of what it was at the beginning of the pay round last August.

People must also "buy British, sell British and make British best" this year to reduce unemployment and keep inflation down. If the £2,000m new research packages after the Budget went on, British goods, it would create more jobs. If it went on foreign goods all it would do would be to create jobs in Japan, Germany, France and Italy.

Vauxhall's growth was dogged by labour trouble last year, which destroyed the company's hopes of making a profit. But it is proceeding with a gradual expansion of its workforce, which has grown by about 4,500 in the past 16 months to 33,000.

It has introduced double-shift working at Ellesmere Port and the Dunstable truck plant, and will start a second shift at the main Luton plant to-day.

Vehicle statistics "disclose too much," Page 5

Banks to study disclosure

By MICHAEL LAFFERTY

BRITAIN'S big clearing banks are planning to set up a top level committee to review their existing accounting and disclosure policies. The decision comes only a month after the Price Commission recommended that the clearers should make full disclosure of their profits and reserves.

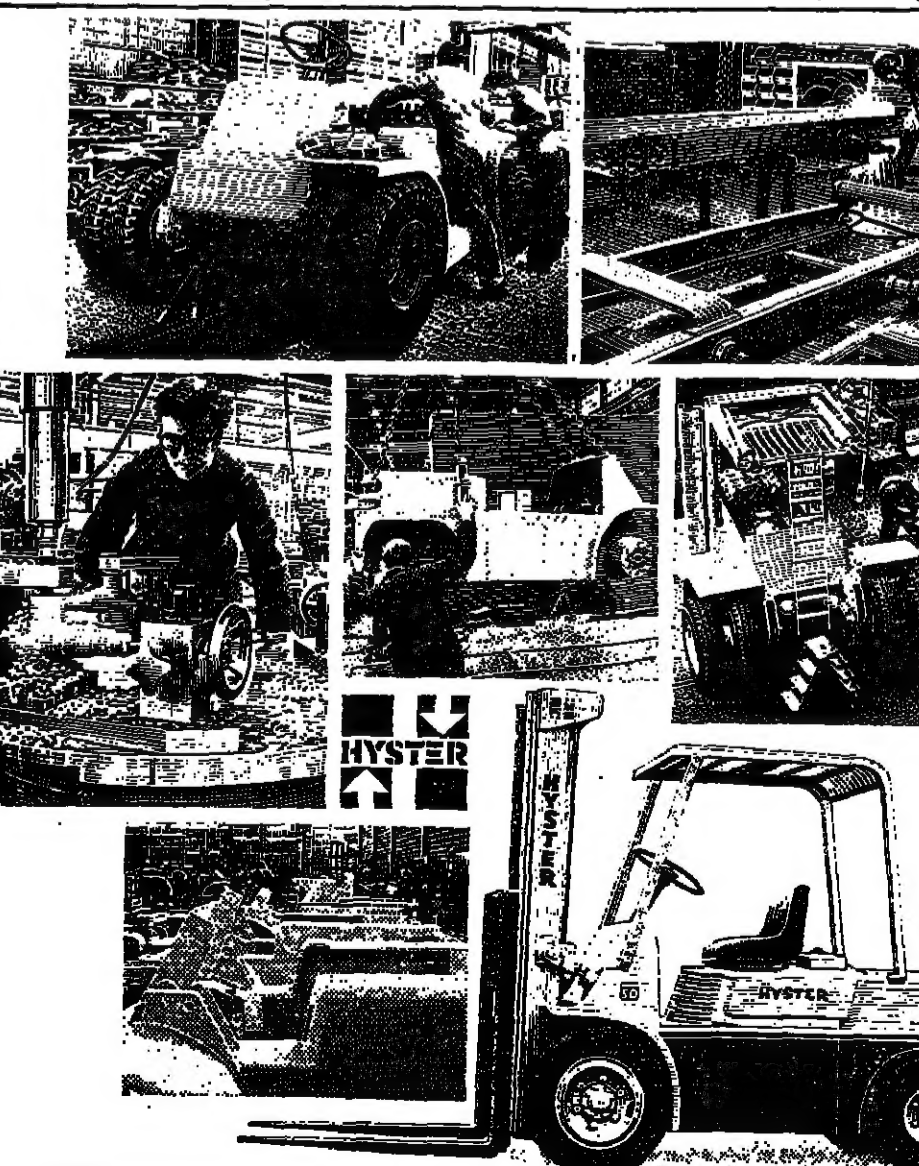
It also coincides with the withdrawal by the clearing banks of their objections and demands for special-case treatment under a proposed accounting standard on taxation. The banks originally thought application of the standard would enable outsiders to work out the amount of their general provisions for bad and doubtful debts.

These have always been a closely guarded secret, although it is said that their level is usually set at 1-1½ per cent of loans at risk.

It now seems that after several months of discussion the bankers have found a way which they believe gets them round the difficulty posed by the draft accounting rule, while at the same time giving nothing away.

This "solution" appears to have the informal approval of the clearers' auditors. Consequently, the banks will not receive qualified audit reports for failure to comply with an accounting standard.

Lex, Back Page



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OVERSEAS NEWS

Zaire copper mines out of action 'for weeks'

BY PAUL CHEESBRIGHT

THE flight of foreign technicians from Shaba suggests that the copper and cobalt mines in the Kolwezi region will be closed for at least several weeks. The fighting of the last few days has not only checked production but inevitably retarded the extensive development programme of Gécamines, the state group which owns the mines.

Neither the mines nor the processing facilities associated with them can work without foreign technicians and, according to Belgian industry sources, production stopped some time last week when personal safety became the main objective of the technicians.

At this stage, information is sketchy but it is clear that foreign technicians remain at the mines, then they will be able to do little more than "preserve the tools" as one Belgian mining man put it. During previous disturbances in the area, a few foreign technicians have always remained behind.

The exact time it will take to

bring the mines back to production when stability returns to the region is not known. There has been some damage done to processing plants but reports of the mines being flooded are discounted.

It is pointed out that the mines in the Kolwezi area are of the open pit variety—huge holes in the ground rather than a maze of tunnels under the surface. In only one mine is there any underground development and it is here that flooding could have occurred.

Electricity supplies were cut last week thus depriving the pumps at this development of the necessary fuel to keep going.

Kolwezi is the centre of a major expansion plan for Gécamines. The plan runs to the end of the decade and although it has been falling behind schedule for some time, because of difficulties in obtaining supplies, it had been intended to raise Gécamines' annual production to 570,000 tonnes of copper by 1979.

But the closure of the mines in the Kolwezi area does not mean that Zaire will have no copper to push on to the international market. The area is one of the three where Gécamines has mines and the other two are still producing normally.

At the same time the Zaire Government has a joint venture with a Japanese consortium, called Codemiza, and output from there has not been affected.

Although copper prices have strengthened since the first news of the Shaba fighting, and at around £720 a tonne is £100 more than at the beginning of February, there are enough stocks available worldwide for the impact of the events in Kolwezi on the copper market to be fairly muted.

The situation is different for cobalt where an existing international shortage is being exacerbated to the extent that prices on the free market have been triple those charged by the producers.

France sticks to its guns

By Our Own Correspondent

NYBORG, Denmark, May 21. THE French Foreign Minister, M. Louis de Guiringaud, assured his EEC colleagues this weekend that France's military intervention to evacuate Europeans trapped by fighting in Zaire's Shaba Province was of limited duration and would soon be drawn to a close.

But he is understood to have made no concessions to other governments' thinly disguised reservations about the way in which the operation has been conducted. Nor did he seek to dispel the impression that it was at least partly intended as a display of solidarity with the controversial regime of President Mobutu Sese Seko.

According to officials attending a private weekend meeting of EEC Foreign Ministers here, other delegations did not criticise the French action directly. But the extent of differences between the Nine was sharply underlined by the absence of the Belgian Minister, M. Henri Simonet. Officially, he was detained in Brussels by urgent consultations on the evacuation. But there were strong hints that M. Simonet was not keen to meet M. de Guiringaud face to face while the Belgian government remained deeply angered by France's failure to consult it before sending paratroopers to Zaire. The British government, represented at the meeting by Dr. David Owen, the Foreign Secretary, is also believed to harbour reservations about the French action and particularly about the wisdom of appearing to rally to the support of the Mobutu regime.

French troops fighting in Chad war

By Robert Mauthner

PARIS, May 21. PRESIDENT FELIX MALLOUM of Chad confirmed here today that French troops are taking part in the fighting against Libyan-backed rebels in northern Chad and were no longer there just in an advisory capacity.

On his arrival here for a 21-nation Franco-African summit conference, which opens tomorrow, General Malloum said that the situation in his country was still very worrying and that France was the only country which had so far responded to his call for military aid.

Chad's government forces, backed by some 1,500 French troops and military advisers and ten Jaguar ground support aircraft, are currently involved in heavy fighting with rebels of the Front National Libération Front, who have made substantial territorial gains over the past few weeks.

The Queen begins W. German visit today

BY ONATHAN CARR

BRITAIN'S Queen Elizabeth arrived here tomorrow for her second State visit to West Germany—an event likely to emphasise how far relations between the two countries have developed on a more normal and friendly footing.

The Queen's first visit here in 1961 was an occasion not just of public enthusiasm but was also seen as a sign of reconciliation between the two peoples after the war.

The enthusiasm is still present. The flags are flying, the papers are full of details about the Royal Family, and

television is planning extensive daily coverage. Furthermore, the West German authorities have agreed to relax security somewhat so that the Queen will be able to "meet the crowds" during her stopovers.

However, even though political relations have become normal this does not, of course, rule out differences of view. The British Foreign Secretary, Dr. David Owen, who is accompanying the Queen and the Duke of Edinburgh, will no doubt be discussing some of these differences with his opposite

number, Herr Hans-Dietrich Genscher, over the next few days.

The Queen's five-day visit begins tomorrow with a luncheon with President Walter Scheel, followed by a visit to the Bonn Town Hall and a state dinner in the evening at Schloss Brühl near Bonn.

One of the high-points will be a visit to West Berlin on Wednesday, during which the Queen will take the salute at her birthday party there. Chancellor Helmut Schmidt

will accompany the Queen on her Berlin visit, a fact which is understood to have annoyed the Russians in view of the city's special four-power status.

Other key stops will be in Mainz, capital of the state of Rhineland-Palatinate, to Kiel, capital of the northernmost state of Schleswig-Holstein, and to the city state of Bremen. The Duke will be making a separate visit to Garching, near Munich, site of construction of the Tornado combat aircraft, which has Rolls-Royce engines.

New York City fails to meet deadline

By John Vines

NEW YORK, May 21. NEW YORK CITY'S self-imposed deadline for presenting an orderly financial house to the U.S. Congress passed on Saturday with none of the city's newest objectives achieved.

It is now not clear whether Senator William Proxmire, chairman of the Senate Banking Committee, will hold hearings on Wednesday into the Carter Administration's plan to give New York \$200 million of loan guarantees.

If Senator Proxmire does delay the hearings it may be very difficult for Congress to approve the Administration's plan by June 30. This is when the existing federal aid programme expires, and with nothing to replace it New York City could slide into bankruptcy by late summer.

The passage of Saturday's deadline has done nothing for the credibility of New York State Governor Hugh Carey and the city's Mayor, Mr. Edward Koch. The two leaders told Mr. Michael Blumenthal, the U.S. Treasury Secretary, 10 days ago that the financial package would be assembled by May 20.

Essentially they had to achieve five goals: an agreement with the municipal unions on a new two-year pay and conditions contract; legislation to extend the life of the emergency watchdog Financial Control Board; legislation to extend the borrowing authority of the Municipal Assistance Corporation (MAC);

undertakings from city banks and insurance companies to participate in a \$4.5bn. long-term financing programme; and payment of \$683m. by five New York City pension systems into the city's Treasury in return for city notes.

The legislative procedures covering the Financial Control Board and MAC are being sorted out in the State capital and the pay negotiators are expected to reach a settlement by Wednesday, the absolute deadline for Senator Proxmire.

Iran threatens halt to economic aid if Bhutto is executed

BY ANDREW WHITLEY

TEHRAN, May 21.

IRAN has threatened to cut off economic aid to Pakistan, worth between \$200m and \$300m a year, if the death sentence on Mr. Zulfikar Ali Bhutto, the former Prime Minister, is carried out. This was disclosed by official sources immediately before Pakistan's Supreme Court began hearing Mr. Bhutto's appeal yesterday.

Diplomatic sources here confirm that considerable pressure is being put on Pakistan's military ruler, General Zia ul-Haq, from Iran as well as from Western countries. Iran has publicly appealed for clemency for Mr. Bhutto, and the Government has acknowledged that there have also been "amicable contacts" between the two countries over his case.

A senior member of Pakistan's ruling military council, Air Marshal Zulfikar Ali Khan, flew to Tehran today on an unscheduled visit and held talks with Dr. Jamshid Amouzegar, Iran's Prime Minister. The subject of the discussions has not been disclosed, but they are thought to have centred on the threat to cut off aid.

A request for further assistance was made during a visit to Tehran 10 days ago, of Mr. Agba Shahi, Pakistan's senior foreign affairs official, according to diplomatic sources. They say the Shah is holding up the request pending the outcome of the Bhutto case.

Observers believe the Shah is concerned about the stability of Iran's eastern neighbour. The Afghan coup has heightened fears here about the possibility of separatist movements among the Pathan and Baluch people of Pakistan. The Shah probably feels that the execution of Mr. Bhutto would aggravate Pakistan's internal tensions.

Simon Henderson reports from

Rawalpindi: The Chief Justice of Pakistan, Mr. Justice Anwar ul-Haq, has ordered that the conditions of Mr. Bhutto should be improved after hearing that he was on a hunger strike. Mr. Bhutto's lawyer said yesterday that the former Prime Minister was being kept with inadequate privacy in a cell where he could not control the light, fan and food except tea, water, soft drink, and cigars.

The authorities have denied the allegation of bad conditions but the Chief Justice, ordered that steps be taken to see that the complaints did not continue. Mr. Bhutto is being held in Rawalpindi district jail while his appeal against death sentence and conviction in a case of political murder is heard in the Supreme Court here. The hearing, which opened yesterday, is expected to go on for more than six weeks.

Global Mirza reports from Karachi: The World Bank aid to Pakistan consortium will meet in Islamabad on May 21 to June 1 to consider Pakistan's request for foreign assistance for 1977-79. Pakistan has already circulated a document giving details of its requirements.

The annual plan co-ordination committee yesterday undertook an exhaustive review of the country's economy and its performance particularly during 1977-78. The meeting evaluated the position of domestic and foreign resources which might be available to finance next year's development programme.

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Simon Henderson reports from

Promise of return to elected rule for Peru

President Francisco Morales Bermudez of Peru has promised in a broadcast to the nation that the military will hand over in an elected government. He was speaking a few hours after putting the country under a state of emergency because of food price riots in which 10 people died. The President hinted that general and presidential elections could take place before the due date in 1980.

Under the emergency, political campaigning on radio and television for Constituent Assembly elections on June 18, has been suspended.

Editorial comment, Page 14

Police hold 84 after Salisbury rampage

Rhodesian police have made 84 arrests after violence between rival black nationalist forces in Salisbury's main black township. Our Salisbury correspondent reports. The violence on Saturday night, came after a rally attended by 10,000 people. They were addressed by the Rev. Ndabaningi Sithole, leader of the Zimbabwe African National Union, and a member of Rhodesia's four-man ruling Executive Council. Police said 100 people went on the rampage, heading west on the main road, looting vehicles and a house. All the major nationalist groups denied responsibility.

Rhodesia's guerrilla war has killed more than 100 people. Defence headquarters in Salisbury said security forces have killed five guerrillas and two guerrilla recruits. Guerrillas have killed three villagers and a white farmer has died from wounds received in an ambush last week.

Tokyo's new airport in operation

Tokyo's new airport became operational despite last-ditch efforts by left-wing radicals who have blocked farmers in a 15-year struggle to stop it being built. Reuter reports. The first six freight and passenger flights landed safely as clouds of black smoke drifted across the runway from burning car tyres set alight by left-wingers to halt the opening yesterday.

Soviet 'spies' held

Two Soviet UN officials arrested on spy charges are to appear in court on May 30 for a preliminary hearing, the FBI said yesterday, according to a Reuter report from New York. The two men, Mr. Rudolf Petrovich Chernyavsky, aged 43, and Mr. Yuliy Aleksandrovich Enger, aged 39, face life imprisonment if convicted. The Soviet officials were diplomats. Mr. Vladimir Petrovich Zinayev, aged 39, was third secretary in the Soviet mission to the UN, was also involved but was not arrested because of diplomatic immunity. According to the FBI, the three men paid \$10,000 to obtain information about U.S. anti-submarine equipment.

Guzman holds lead

Mr. Antonio Guzman, the Opposition candidate, who has already declared himself President-elect of the Dominican Republic, maintained his lead yesterday as more official results were announced. Reuter reports from Santo Domingo.

DELTA



"Overall I remain confident about the prospect in 1978."

Lord Caldecote, Chairman

Other points from his statement at the A.G.M.

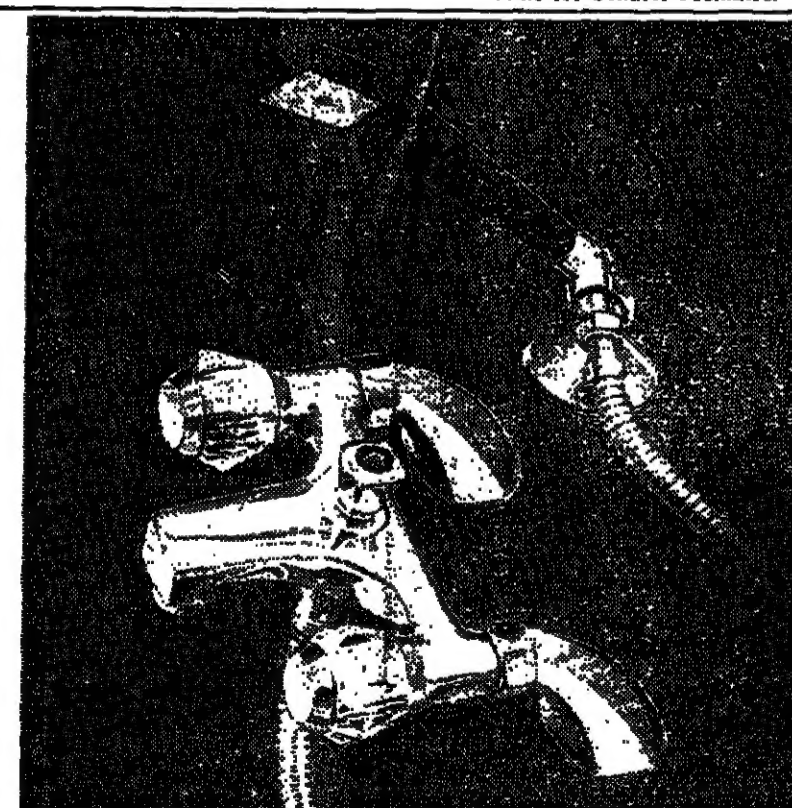
"Nearly 60% of our U.K. trading profits are now derived from finished engineering products and components."

I want to emphasize once again the vital importance of improving rewards for skill and experience."

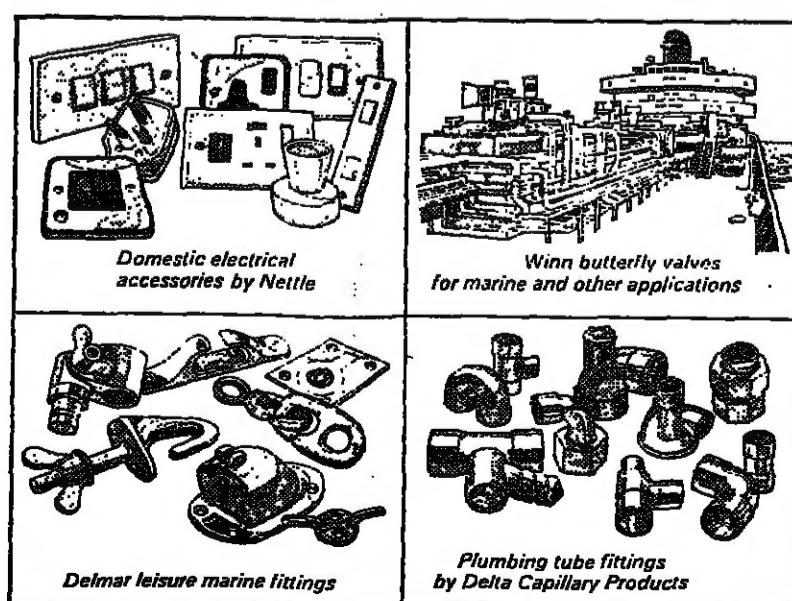
If skilled people are properly rewarded then the numbers that are needed will be available, and they will help to produce the extra national wealth and job opportunities from which we shall all benefit. Failure to reward skill and experience through better differentials in take home pay will prevent our taking advantage of an expanding economy to create more employment. Those benefiting most from expansion will be the hundreds of thousands of unskilled people now out of work, most of all the young ones who have just left school.

I believe the balance of advantage has now swung in favour of a greater degree of flexibility in pay policy after August 1st this year, even at the risk of making the reasonable settlement of pay claims more difficult."

Copies of the full report and accounts and Lord Caldecote's statement to Shareholders at the Annual General Meeting are available from the Secretary, The Delta Metal Company Limited, 1 Kingsway, London, WC2B 6XP.



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Britain calls for closer EEC links with Turkey

BY OUR COMMON MARKET CORRESPONDENT

NYBORG, Denmark, May 21.

BRITAIN has called on its EEC partners to reinforce their joint cultural, political and economic links with Turkey to prevent a further deterioration in the already strained relations with Ankara.

But although Dr. Owen's desire not to alienate Ankara further is widely shared by his colleagues, they were unable to agree on any specific measures. Some delegations questioned whether closer political association with Turkey was practicable and suggested that the EEC might be forced instead to opt out of any direct involvement in policy, once Greece has been admitted.

He is said to favour inviting Turkey to attend "political co-operation" sessions, at which the Nine discuss issues outside the framework of the Rome Treaty, whenever these touch on matters of direct interest to Ankara, such as Cyprus and the dispute with Greece over the Aegean.

He called on his colleagues to study ways of helping Turkey to try to correct its massive trade deficit, possibly by stepping up

the EEC both by Turkey's bitterness at the refusal of the U.S. Congress to lift the American embargo on arms deliveries to Ankara and by the threatening visit to Brussels of Mr. Bulent Ecevit, the Turkish Prime Minister.

Mr. Ecevit is expected to present a number of demands for a better deal when he meets Mr. Roy Jenkins, President of the European Commission, on Thursday.

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هكنامت الأهم

OVERSEAS NEWS

Huge majority expected for Sadat's six principles

BY ROGER MATTHEWS

CAIRO, May 21

NEARLY 11 million Egyptians were entitled to take part in a referendum today which could prove a turning point in the democratic experiment initiated by President Anwar Sadat. They were asked to vote on a set of six principles enunciated by Mr. Sadat in a speech last Sunday in which he angrily accused his critics of mounting a campaign of doubt and rumour.

If, as widely expected, the electorate is announced to have given a 99 per cent-plus vote in favour of curbing politicians and other people who fall within the

broad lines drawn up by the referendum, Parliament will draw up legislation that could be used to silence many of the President's more vocal critics.

In a statement last night the Bar Association described the referendum as "unconstitutional, illegal and a setback to democracy." The conservative New Wafd, the most recently formed of the four legal political parties, said it regretted that the referendum had been called because it aimed to impose restrictions on the freedom to form parties, and of parties to choose

Rise in Saudi oil exports

BY JAMES BUCHAN

JEDDAH, May 21

SAUDI ARABIAN exports of crude oil rose by an average of 1.1m. barrels a day last month compared with March, according to figures issued by the Saudi Ministry of Petroleum and Mineral Resources.

Exports which account for all but 6 per cent of Saudi production stood at 7.81m. barrels a day against 6.81m. in March.

Only attack was for 'vengeance'

BY HSIAN HIJAZI

BEIRUT, May 21

A GROUP calling itself the Sons of Lebanon Organisation has claimed responsibility for the attack on Orly Airport, Paris, yesterday in which one French policeman and three guerrillas died. Three policemen and three airline passengers, all French, were wounded.

A statement signed by the group and distributed in Beirut last night said the target of the attack was a group of Israeli army officers who were about to board an El Al flight bound for Israel. The group wanted to take vengeance for the Israeli invasion of southern Lebanon two months ago, it said.

The statement did not give the identity of the three guerrillas who staged the attack.

This is the first time the Sons of Lebanon Organisation has been heard from. Observers recall, however, that this is not

the first time that new names for organisations have been used in claiming credit for hijackings or terrorist activity abroad. Most of the actions were carried out by members of the Syrian operations branch of the Popular Front for the Liberation of Palestine (PFLP).

The Orly assault had all the makings of a PFLP foreign operation and observers doubt that a new group could possess the means to mastermind an attack on this scale.

Robert Maunier reports from Paris: The three terrorists, who carried several passports including Tunisian and Lebanese documents, and were all in their twenties had flown in from Tunis earlier yesterday, according to the French police.

They were seen taking out automatic weapons from their hand luggage as they were about

to go through the security check. Israeli security agents were reported to have assisted the French police during the battle.

Mr. Mordechai Ganit, Israeli Ambassador to France, was at the airport to meet Mr. Israel Katz, Israel's Minister of Labour, but neither he nor the Minister were present in the customs hall when the shooting took place.

Mr. Shmuel Tamir, Israel's Minister of Justice, later telephoned the French Minister of Transport to express his government's appreciation and thanks for the way in which the French police had foiled the terrorists. "Only by co-operation between free countries will it be possible to fight barbaric terrorism," he said.

Orly Airport has been the scene of three attacks against El Al since October 1972.

SHIPPING REPORT

Atlantic grain trade dominates

BY LYNTON McLAINE, INDUSTRIAL STAFF

THE ATLANTIC grain trade dominated shipping markets last week, with new high levels of chartering. Elsewhere and in other sectors, the number of ships awaiting cargoes were hard to find, despite a moderate amount of business in tanker trades.

In tankers, inquiries remained at a low ebb in the Middle East with shipbrokers again worried about the number of ships awaiting cargoes. Over 5m tons of tonnage is still lying in the region without work.

Other areas reported better trading, with the Mediterranean and Caribbean noticeably more buoyant than in previous weeks.

In the Arabian Gulf, inquiries for very large crude carriers were sluggish. Owners tried to resist any further fall in rates. In the case of a 260,000 ton VLCC a charter was won to Europe at Worldscale 18.5, compared with 18.25 for some charters in April. A few deals then were concluded at Worldscale 17.

Two other VLCCs fixed charters at Worldscale 19.25 to Europe and 21 to the Far East.

Brokers reported charterers switching combination carriers into the dry cargo trade. This has grown steadily stronger in recent weeks and the switch helped marginally the fortunes of the tanker owners. Cargoes of 60,000 tons attained Worldscale 53.5 to the U.S. Gulf from the Mediterranean.

West African markets moved upwards this last week, with a

World Economic Indicators

		TRADE STATISTICS			
		April 78	March 78	Feb. 78	April 77
U.K. £bn	Exports	3,004	2,830	2,999	2,635
	Imports	2,748	3,100	2,917	2,764
	Balance	+0.256	-0.270	+0.082	-0.129
France Frs bn	Exports	31,133	28,611	26,877	26,242
	Imports	29,941	28,547	28,731	27,614
	Balance	+1,192	+0,064	-1,854	-1,372
W. Germany DM bn	Exports	24.6	21.4	21.3	25.8
	Imports	20.4	18.7	19.4	21.4
	Balance	+4.2	+2.7	+1.9	+4.4
Italy Lire bn	Exports	3,502	3,051	2,735	3,419
	Imports	2,702	3,123	2,843	3,882
	Balance	+800	-0,072	-1,108	-4,463
U.S. \$bn	Exports	10.9	9,922	10,014	10,071
	Imports	13.7	14,439	12,393	12,459
	Balance	-2.8	-4,517	-2,379	-2,388
Japan \$bn	Exports	7,288	7,580	8,449	5,773
	Imports	4,930	5,205	5,774	4,738
	Balance	+2,358	+2,375	+2,675	+1,035
Holland Fls bn	Exports	8,662	9,317	9,310	8,455
	Imports	8,886	9,365	9,419	9,089
	Balance	-224	-0,048	-1,109	-0,634
Belgium Bfrs bn	Exports	111,545	120,476	107,778	99,409
	Imports	118,210	117,995	120,257	111,788
	Balance	-6,665	+2,481	-12,479	-12,379

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WORLD TRADE NEWS

U.S. may allow Kfir Taiwan deal

By David Lemmon

TEL AVIV, May 21

ISRAEL IS hopeful that the U.S. Government will agree to the sale of 48 Kfir jets to Taiwan. The deal, worth \$500m, is the largest export order Israel ever received.

The Kfir is powered by an American manufactured J-79 engine. The U.S. has used this fact to bar the sale of Kfirs to Ecuador and Taiwan in the past. But Israel has received recent indications that the Carter Administration may now approve the sale to Taiwan to "compensate" Israel over the decision to sell American warplanes to Egypt and Saudi Arabia.

Taiwan has been negotiating with Israel Aircraft Industries for over a year over the package.

Swedish trade surplus

Preliminary Swedish trade figures for April show a SKr 1.2bn (\$260m) surplus and suggest that the improvement in the trade balance this year is strengthening out Nordic Corridor reports. Sweden exported goods to a value of SKr 31.3bn in the first four months of this year, while imports totalled SKr 29.9bn, the statistical central bureau calculates. The four-month surplus of SKr 1.4bn on the trade balance compares with a deficit of SKr 2.5bn during the corresponding period of 1977.

BSC Mexican order

A Mexican order worth \$1.3m has been won by the British Steel Corporation's Sheffield division with the possibility of more orders to come.

U.S. newspaper mill

E. and B. Cowan, the Canadian pulp and paper industry engineers and consultants, will do the engineering for a new 175,000-ton-a-year newspaper mill costing \$100m to be located in Virginia in which Dow Jones-Wall Street Journal and the Washington Post will be principal investors, Robert Gibbons writes.

Europe's tight industry to act on overcapacity

BY RHYS DAVID

EUROPE'S KNITWEAR producers are to get together to work out ways of controlling the massive over-production in the women's tights industry which has led to severely depressed prices and a number of factory closures.

The move, which has been notified to the European Commission, was agreed at a meeting in Harrogate, though only with the reluctant acceptance of the Italians whose investment in tights production for export markets has been the main cause of present problems.

Representatives of the European tights industry had earlier been told in a paper delivered to the international congress of the tights industry that a total of 10,000 jobs in Europe were now at risk, and that without co-ordinated action to regulate the market there was a danger of in-

dividual countries taking protectionist action.

The current over-capacity in the European tights market—estimated at around 40 per cent—has resulted in part from fashion changes such as the spread of jeans, leading to a reduction in purchases by women in all European countries from 22 pairs per year in 1972 to 17 pairs in 1977.

At the same time however there has been the twin development in Italy of newer and faster machinery for producing tights and the highly organised out-worker industry. According to figures quoted by the Swiss Cespian organisation the Italian industry managed to increase its share of the German market from 18 per cent to 25 per cent in 1977 and 1978 and in France over the same period its share went up from 18 per cent to 28 per cent, even though in

Soviet team arrives for UK talks

Financial Times Reporter

A 25 member Soviet delegation arrived in London yesterday to attend the seventh meeting of the British-Soviet Joint Commission to review U.K.-Soviet economic, industrial, scientific and technological co-operation.

The delegation, which is led by Mr. Vladimir Kirillin, deputy premier and chairman of the State Committee for Science and Technology, was met at Heathrow Airport by Mr. Edmund Dell, Britain's Secretary of State for Trade.

During the visit, which ends on Thursday, May 25, the Soviet delegation will have talks with Dr. Dickson Mabou, Minister of State for Energy, and Mr. Alan Williams, Minister of State for Industry. They will also meet Mr. H. B. Greenborough, president of the CBI and Sir John Buckley, acting chairman of the East European Trade Council and a number of other leading British businessmen.

The main increases in UK exports to the Soviet Union last year, which totalled \$347m up from \$240m in 1976, were in machinery, chemicals, iron and steel, and scientific instruments. UK imports from the Soviet Union totalling \$761m last year against \$645m in 1976, continue to be mainly raw materials, including timber, with a substantial entrepot trade in precious stones and furs. In the first quarter of the year UK exports rose to \$121m from \$104m a year ago while imports fell slightly to \$132m from \$147m.

VW Brazil in Chrysler talks

BY SUE BRANFORD

SAO PAULO, May 21

VOLKSWAGEN OF Brazil, the giant of the Brazilian motor industry, may shortly be taking over part of Chrysler's plant to produce light lorries, components and possibly motor-cycles.

Chrysler, which has suffered considerable difficulties in Brazil in recent years, has decided to cut down the size of its operation, and that without co-ordinated action to regulate the market there was a danger of in-

Argentine imports move

BY ROBERT LINDLEY

BUENOS AIRES, May 21

A MOTOR industry draft law aimed at modernising the Argentine motor industry and reducing car prices would free imports and make import taxes fall down a sliding scale over the next three years, beginning on July 1.

It is considered a certainty that President Videla will sign the draft law, which would remove the present ban on the imports of motor vehicles. By 1983, import taxes would be reduced to 55 per cent for cars and 45 per cent for pickups and trucks.

Motor vehicles cost double or more in Argentina than they do in most industrialised countries.

Marubeni in Iraq

Marubeni said it has signed a \$400m contract with the Iraqi Ministry of Housing and Construction to build five technical institutes and expand an existing facility. Reuters reports from Tokyo. Fujita, Taisei and Toyo Fine Chemical will undertake the construction work, which will start later in May. The contract also covers the supply of laboratory equipment and furniture.

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HOME NEWS

Product liability 'may lift prices'

By Elinor Goodman, Consumer Affairs Correspondent

THE Confederation of British Industry said yesterday that proposed changes in the law to make manufacturers strictly liable for defective products could result in higher prices and fewer new products.

In its interim representations on proposals for changing the law relating to product liability, the CBI pointed out some of the implications of changing the law along the lines suggested by the Pearson Report and the Law Commission.

But it did not commit itself on the fundamental issue whether such a change in the law was desirable in the first place.

Proposals for changing the law relating to liability for defective products have been under discussion for several years both in Britain and in Europe. Most stem from the desire to avoid another Thalidomide tragedy.

Last June—the English and Scottish Law Commissions published their proposals on the subject. The matter was also dealt with in the report of the Royal Commission on Civil Liability and Compensation for Personal Injury under the chairmanship of Lord Pearson. This was published in March.

Benefits

The CBI was asked to give the Government its views by the end of April. But yesterday it said anything it said at this stage must be provisional as industry had not had time to absorb the implications of the proposals. A broad statement of policy would be considered by the CBI council in June.

The CBI said it was not convinced that there had been adequate recognition of the price which would have to be paid. It was not likely that the price could prove acceptable to the public in relation to the benefits.

It supported the recommendation in the Pearson Report that any money received from the social security system should be deducted from an award made after civil action for damages.

It expressed concern about the implications for new product development. It was impossible to guarantee that dangers would not arise with a new product. Certain industries, such as pharmaceuticals, might be unable to get insurance cover without the backing of a Government compensation fund.

It believed liability should be restricted to injury or death and not cover damage to property, as proposed in Brussels. Any new laws should "protect producers from frivolous or excessive claims" as had been made in the U.S.

Coal Board £200m. plan near approval

By JOHN LLOYD

INVESTMENT of about £200m is coming up for approval by the National Coal Board for a number of colliery developments to come on stream in the mid to late 1980s.

The projected developments consist of a new "super pit" in South Wales, an undersea mine in Scotland, the resumption of working in an abandoned colliery and the redevelopment to an existing pit.

Most of the coal to be won from these new workings will be power station quality, with some coking, domestic and general industrial coal as well. The new collieries will employ about 3,000 miners.

The Welsh "super pit" will be at Margam, near Port Talbot and will cost an estimated £100m. Plans are still being completed at South Wales area level, and the project will go to the Board later in the year.

Margam has extensive reserves of high quality coking coal, which, it is hoped, will be taken up by the British Steel Corporation's Port Talbot

works. The colliery should come on stream in the mid 1980s and will employ about 1,000 miners.

The undersea pit, which is still at the planning stage, will be sunk at Musselburgh, near Edinburgh, in the Scottish Coal Board area, at an estimated cost of £30m.

The National Coal Board has proved reserves of 100m tons, mainly of steam coal, and the pit will be twinned with the nearby Monktonhall Colliery.

It will employ about 500 miners.

Drift sinking The abandoned colliery of Thorne, 15 miles North-West of Doncaster, was opened in 1926 and abandoned because of flooding in 1956 when it employed 3,000 men.

More than 140m tons of high quality power station and domestic coal have been proved within a five-mile radius of Thorne.

A proposal is being completed to re-open the pit, and to exploit the two rich Barusley and the High Hazel seams, at

a probable cost of about £50m. Thorne will employ an estimated 1,400 miners and is expected to be producing by the mid-1980s.

The last of the big future projects has already gained Board approval. It is a major extension to Daw Mill colliery, near Coventry, in the South Midlands area development, which is expected to cost £21.7m.

The extension will boost production at Daw Mill from 1m to 2m tons a year. An additional drift will be sunk from the surface of the pit to gain access to proved reserves, estimated at 200m tons, mainly of power station coal.

These projects are expected to come on stream about the same time as the £500m Belvoir scheme, in Leicestershire, which will probably be producing 7m tons of coal a year by the late 1980s.

The major colliery for the 1980s remains Selby, in Yorkshire, which will also cost £500m. It will produce 10m tons a year, beginning in 1982.

Co-op merger issue revived

By OUR CONSUMER AFFAIRS CORRESPONDENT

THE QUESTION of whether the two central bodies of Britain's co-operative movement should be merged is again likely to dominate the Co-op's annual Congress, to be held in Scarborough this week-end.

Proposals for merging the Co-operative Union, the main custodian of the movement's conscience, with the more commercially orientated Co-operative Wholesale Society, have been discussed for years.

But they seemed to have been finally knocked on the head last July when the movement's 206 retail societies voted against the idea.

The special committee, set up

to study the merger, however, still has to present its report to this year's Congress.

Proposals

The committee has already said that it will recommend its own formal winding-up at Congress, but more than a third of the resolutions put down for debate are connected with changes in the structure of the movement or increasing the Union's strength and effectiveness.

The Birmingham society, for example, has submitted a resolution calling on Congress to recognise that the winding-up of

the sub-committee on the Single National Federation did nothing to resolve the problems and that some new initiative is needed.

The other long-running issue in the co-operative movement is the plan to reduce the number of retail societies and create far larger regional societies.

Though there is no proposal specifically dealing with this on the agenda for next week-end's congress, it is bound to be discussed.

The other subject likely to arouse strong feelings at congress is the question of trade with South Africa. At present there are three proposals to be discussed dealing with South Africa.

Town halls free to defy independent schools ban

By MICHAEL DIXON, EDUCATION CORRESPONDENT

ONLY NEW legislation could stop local authorities from continuing to finance independent schools in defiance of a ban by the Department of Education and Science, a Whitehall official admitted yesterday.

The Department's ban applies only to local education authorities. This leaves the 400 councils now without educational responsibilities—including large

areas such as Greater Manchester—free to finance public at independent schools as a general amenity under the Local Government Act.

In addition, councils which are local education authorities—such as Cambridgeshire—may decide to use their power to make grants to charities to finance any of the numerous independent schools which have charitable status.

Wrangler plans jeans expansion

By RHYS DAVID

WRANGLER has decided it is time for a further expansion of its jeans manufacturing capacity in the U.K.

Negotiations are taking place with the Scottish Development Agency which could lead to a doubling in size of the company's main factory at Falkirk. This together with expansion elsewhere in Scotland, where Wrangler has opened a total of four factories since 1969, is

likely to take total employment by the group over the next few years from its present total of around 750 in its UK plants to more than 1,000.

Wrangler, a subsidiary of the U.S. group Blue Bell, has been expanding at a time when many other UK clothing concerns are having to rely on employment subsidies to maintain their labour force—as a result of the continuing strong growth in sales of leisure wear.

The jeans market in the UK is estimated to have tripled since 1970 when 12m pairs were sold, and the total European market, according to the International Institute for Cotton, went up from 38m in 1970 to around 172m pairs in 1976.

Wrangler's proposed expansion is intended to cope with this continued growth and also with changes within the jeans market itself. Although jeans—differentiated from trousers by their lower cut and back construction—are continuing to grow at the expense of conventional trousers, other fabrics and in particular corduroy, are now becoming more important along-

side the traditional indigo-dyed denim.

Wrangler puts the present split in the UK market for jeans at 80 per cent denim and 20 per cent corduroy and other fabrics. The company is increasing its own corduroy output significantly, however, and expects its line-up for spring next year to be 45 per cent denim, 45 per cent cord and 10 per cent other fabrics.

In the current year the company is forecasting a sales increase of around 20 per cent, partly as a result of continued growth but also from increased market share.

Three companies, Wrangler, Levi and Brat, hold about 30 per cent of a highly fragmented market in the UK but altogether around 70 producers are in competition.

The use of new materials such as Corduroy which requires different processing and manufacturing methods from denim, and the high cost of marketing what has now become a mature product is expected to, however, to prove too much for some of the smaller producers, lacking the

worldwide resources of some of the bigger groups.

The leading brands have been digging deep into their pockets to fund much larger advertising budgets, and Wrangler has maintained a higher level of advertising during the past winter—normally a slack period for jeans sales—and claims this has enabled it to double normal sales.

The company has been promoting its name heavily through its television and posters in order to get away from generic jeans advertising which simply sells the product.

Another objective of the advertising campaign has been to try and persuade the public that jeans embraces corduroy and other fabrics as well as indigo-dyed denim.

Predictions of an end to the jeans boom nevertheless continue to be made by fashion writers, but according to Wrangler it is still a very long way off.

Mr. Richard Webb, the company's UK managing director points out that standards of dress in society look like continuing to become less formal with increasing leisure and mobility, figure is 0.36 pairs a year.

offering the makers of casual clothing the prospect of continued high growth in sales.

The jeans manufacturers have in any case insured themselves to some extent by widening their product ranges to embrace a variety of new products from boots to belts and hats.

Wrangler's own business in the UK is now one third in tops, shirts and jackets, imported from the company's factories in Ireland and Malta or bought from other suppliers.

There is also further scope for broadening the age appeal of jeans—something which is more likely to happen with corduroy than with denim. Some 70 per cent of jeans sales are to the 18 to 29 age group but sales outside this age range have been growing fast, partly because the original jeans wearers are themselves now getting older.

The UK is also only about half way in the European league table of jeans purchasers per person each year, headed by the Scandinavians who each manage to buy 1.2 pairs per year. In Britain the figure is only 0.6 pairs per year although this is still some way ahead of France where the figure is 0.36 pairs a year.

National Savings top £137m in April

By Adrienne Gleeson

AFTER A COUPLE of relatively sluggish months, National Savings figures again took on a turn of speed in the five weeks to the beginning of May. The total was £137.4m against net receipts of £99.5m in the preceding four-week period (£105.2m in April, 1977).

The increase was very largely due to a rise in sales of National Savings Certificates, following the announcement in the Budget that the present 14th issue was to be replaced with a new and lower coupon issue in mid-June.

Net receipts on sales of National Savings Certificates (excluding the index-linked issue) rose from £25.5m in March to £55.1m in the five weeks just reported.

On Friday the Chancellor of the Exchequer announced in a written answer in the Commons, that withdrawal of the 14th issue and introduction of the 17th issue was to be deferred because of the rise in interest rates.

Interest

Also contributing to the rise in receipts were the National Savings Bank's investment accounts, where net receipts for the five weeks period rose to £12.7m, from the £19.9m reported in March, and British Savings Bonds, where net receipts amounted to £17.9m against £15.3m for the preceding four-week period.

Including accrued interest of £32.9m, there was £170.3m to be added to the total invested in National Savings at the end of the five-week period.

At £10.2m, that total reflects the Government's increasing determination to use National Savings to help to finance its borrowing requirements, by offering savers inducements such as high interest rates and tax concessions.

A year ago the total was only £5.35m.

Inquiry into plan for fast-breeder reactor faces delay

By RHYS DAVID

THE PROPOSED inquiry into plans by the United Kingdom Atomic Energy Authority to build a full-scale experimental fast-breeder reactor is now unlikely to be held until the end of next year.

The possible postponement was one of the points to emerge during a visit to the authority's northern group headquarters at Risley, near Warrington, by Mr. Anthony Wedgwood Benn, Secretary for Energy, on Friday.

The authority, which last week received Parliamentary approval for its Windscale reprocessing plant after last year's public inquiry has indicated to the Minister that the necessary preparatory work for another inquiry will take at least a year and discussion will also have to take place with the electricity generating authorities.

Before the inquiry is held it is likely a decision will have to be taken on siting and design, though the most obvious site is Dounreay, Caithness, Scotland. The Authority already has a prototype fast reactor of 250 MW

at Dounreay which was run for a short time in February. This is now on scheduled shut down, but is due to be brought back on full power for a 12-month period shortly, enabling the Authority and the Central Electricity Generating Board to gain operating experience.

The inquiry will decide whether or not Britain should go ahead with the building of a 1250 MW commercial demonstrator fast reactor costing with associated plant about £1bn.

Fast breeder reactors which use as their fuel source plutonium produced in the current thermonuclear reactors are likely to play a significant part in meeting energy needs in the 21st century.

Mr. Benn was at Risley to inaugurate a £4m new ICL 2980 computer system installed as part of the Authority's plans to centralise and rationalise its computing. The Risley computer is the first to be supplied to a user with a new fast multiply-divide unit which according to ICL can cut the time needed for calculations by two-thirds.

Scrap traders meet in London today

By JOHN LLOYD

THE GROWING need to recycle a range of materials and the consequent growth of reclamation industries, will be highlighted in the convention of the Bureau International de la Recuperation, which begins in London today.

Around a third of raw materials produced is re-cycled. According to Mr. Alfred Cooper, world president of the Bureau, the reclamation industry "is fast becoming one of the largest industries in the world."

Figures produced by the Bureau show the scale of energy savings made possible by recycling. It claims that it takes 31 barrels of oil to produce one tonne of primary aluminium, compared with two barrels when aluminium scrap is used.

To produce copper wirebars from copper scrap requires only 22 per cent of the energy required to convert ore into metal. Energy savings on making iron and steel from scrap vary from 50 to 75 per cent.

More than 600 delegates will attend the London Convention from 36 member countries including the Soviet Union and East European States.

Uproar over 'disloyal' MPs

By ROSIN REEVES

ANGRY SCENES broke out at the Welsh Labour Party's annual conference in Swansea over the week-end as anti-devolution MPs were accused of trying to undermine the Government's devolution legislation.

An emergency resolution expressing, "deep dissatisfaction" with the 40 per cent referendum threshold now written into the Bill to create a Welsh Assembly was carried four to one in a cast vote.

But not before a debate which exposed deep divisions within the Welsh Labour Party's ranks over the proposed Assembly, and grass-roots anger at the failure of some Welsh Labour MPs to support the party's longstanding pro-devolution majority line.

At one stage, there was complete uproar. It took Mr. Emyr Hughes, the party chairman, several minutes to restore order.

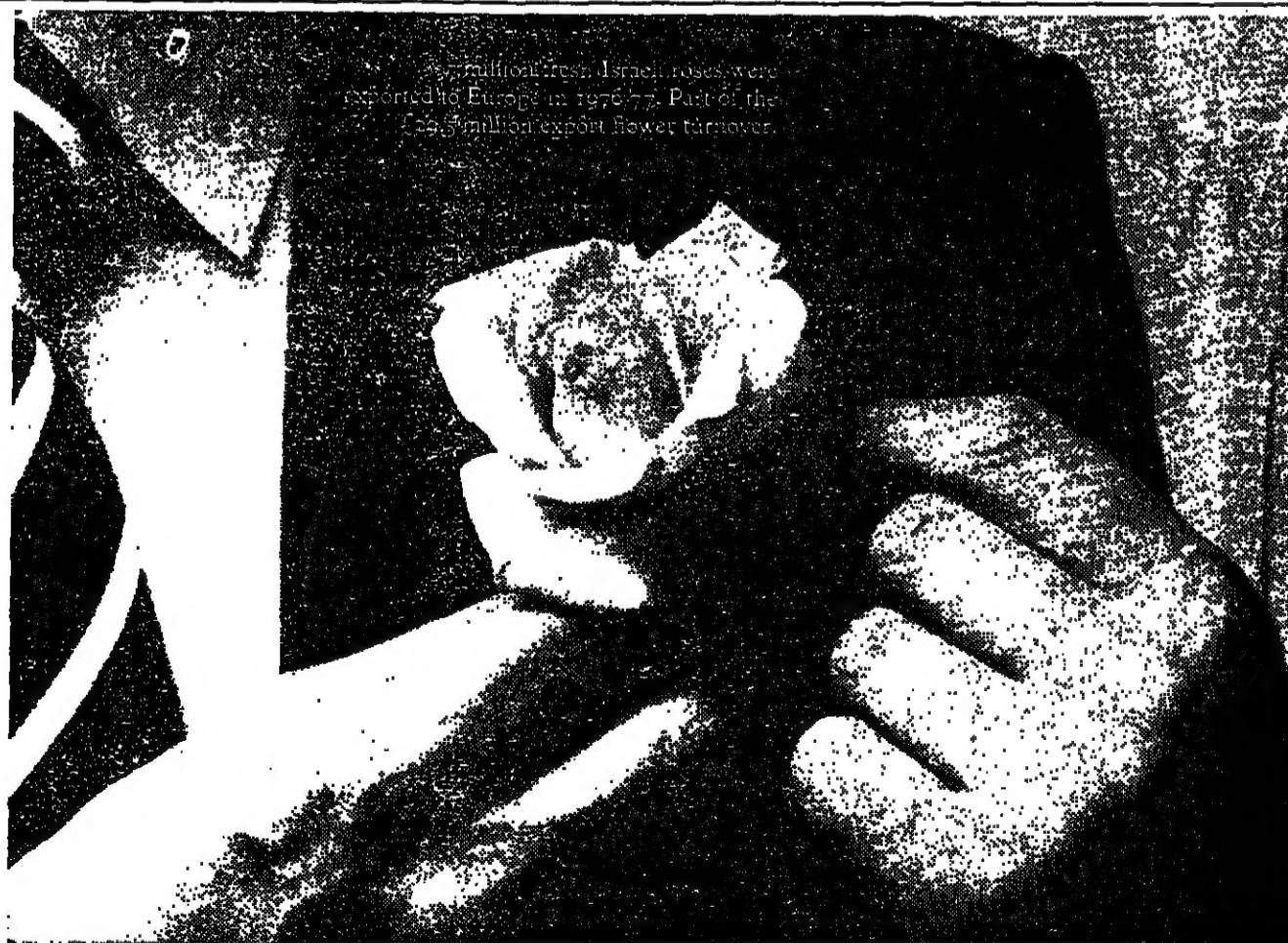
The pro-devolution attack was led by Mr. Ray Powl, a past chairman, who accused the MPs concerned of "disloyalty to the Labour movement."

Misinformation By promoting the 40 per cent amendment, they had "placed a dangerous weapon in the hands of reactionaries of the future."

Mr. George Wright, Wales TUC Secretary, said that if the referendum was lost because of the 40 per cent threshold, it would "split the party and fuel the fires of nationalism."

An angry Mr. Neil Kinnock, MP for Bedwellty, and prominent anti-devolutionist, described the attacks as "misinformed" and strongly rebutted the charges of disloyalty.

Mr. Iwan Evans, MP for Aberdare and a leading anti-devolutionist, also defended himself and called for tolerance of differing points of view.



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HOME NEWS

CONSUMER CONFIDENCE

Long-term trends all show more spending

BY ELINOR GOODMAN, CONSUMER AFFAIRS CORRESPONDENT

PEOPLE are taking a slightly more cautious view of the future than immediately after the spring Budget, according to the latest survey of consumer confidence for the Financial Times. Even so, the long-term trends all point to a further increase in consumer spending later this year.

The indices measuring consumers' view of their prospects and their degree of enthusiasm on buying consumer durables fell this month, having risen in April. The index reflecting how "well-off" people feel continued its upward trend.

Though most were cheered by last month's Budget, the optimism seems to have faded fairly quickly. Whereas in April those expecting things to improve outnumbered those expecting things to get worse by 12 per cent, this month the optimists were in a majority of only 5 per cent.

The only group of respondents to take a more cheerful view this month were professional men who were the only group last month not to be discouraged by the Budget.

The monthly index of Consumer Confidence stands at its lowest level since last July, while the six-month moving average figure, which gives a better idea of long-term trends, has continued its downward drift.

Even so, the picture is more cheerful than two years ago, when pessimists greatly outnumbered optimists.

The most commonly cited cause of optimism was the fact that things must get better, mentioned by more than a third of the sample, while 14 per cent said they thought inflation was under control. This was a rather lower figure than in January.

A further 6 per cent said they were encouraged because they thought the Conservatives would be in power within a year.

Worries about rising prices remain the biggest reason for pessimism. This month 36 per cent of those taking a gloomy view about the future blamed inflation against only 24 per cent last month.

Fewer blamed the Government for gloomy prospects than last month, while those mentioning unemployment as grounds for concern stayed stable at 12 per cent of the sample.

View on jobs

The proportion thinking unemployment would increase rose again this month. While 14 per cent said they thought unemployment would fall, 36 per cent said they expected it to get worse.

This gave a balance of 22 per cent thinking the job outlook would deteriorate against 20 per cent last month.

The index of views on whether now is a good time to buy consumer durables fell by 3 per cent this month to show a balance of 20 per cent in favour of buying.

The six-month moving average

index continued to rise and, at +21 per cent is at its highest for nine months.

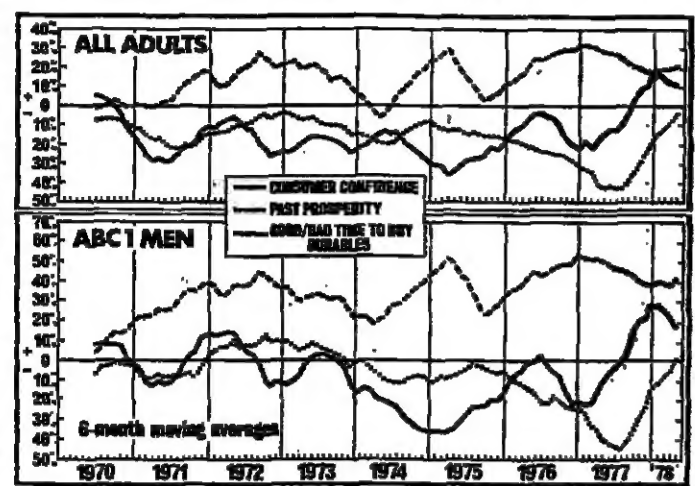
The drop in the monthly "Time to Buy" index was due mainly to the more cautious views by men with manual jobs. Among this group those for spending money now outweighed those against by only 9 per cent, the lowest figures since November.

The higher number of wage settlements under Phase Three in the last month is reflected in the Past Prosperity Index.

Asked whether they felt better- or worse-off compared with a year ago, 34 per cent said better-off and 31 per cent worse-off. This gave a positive balance of 3 per cent, which equals January's record level.

Past Prosperity has risen most sharply for professional men, though interestingly it has fallen for women.

The survey was carried out for the Financial Times by the British Market Research Bureau. A total of 989 adults were interviewed between May 4 and 10.



LABOUR NEWS

Attempt to end 'canteen spies' row

TALKS ARE expected to be held today in an attempt to settle the "spies in the canteen" dispute at British Leyland's factory, at Solihull.

The union management talks, however, may be too late to stop the lay-off of about 2,000 men—half the saloon-car workforce—from this morning.

If the men are sent home, production of Leyland's prestige Rover range would quickly come to a halt costing the company about £500,000 a day.

About 500 workers walked out of the factory's paint shop last week.

They claimed that two foremen were using two women canteen workers to spy on the time they took for meal breaks. They said that they would not return until the two men were sacked.

Beynon to head teachers' association

MR GEOFFREY BEYNON 51-year-old assistant secretary of the Assistant Masters' Association, is to succeed Mr. Andrew Hutchings as general secretary of the 40,000-strong union with a salary of £10,000 a year.

The association, Britain's third-largest teaching union, will merge with the Association of Assistant Masters next September, with Mr. Beynon and Miss Baird, general secretary of the AAM, become joint secretaries of the new union.

Mr. Beynon will not take over until Mr. Hutchings retires in December.

NGA to discipline Observer 'casuals'

BY CHRISTIAN TYLER, LABOUR EDITOR

THE 14 print workers who refused to work at the Observer will face union disciplinary proceedings and the loss of all their Fleet Street employment.

The National Graphical Association's governing council made the threat on Friday at a special meeting called in response to The Observer's warning that it would shut unless guarantees of uninterrupted production were given by the 25 machine minders who halted the previous Sunday's issue.

On Saturday, 11 of the men delivered the assurance in time for The Observer to produce a reduced, 24-page, edition yesterday.

Although the union had said

that it would provide other staff if the machine minders did not comply, there was no time to make up the complement at The Observer this weekend, a union official said yesterday.

The reaction of 21 NGA men who work for the magazine Reveille—some of them are the same men—as a similar warning will not be known until they report for work tomorrow. Reveille has also suffered stoppages and loss of copies.

The Observer yesterday carried a front-page apology to readers and an explanation of the week's events. It said that the same dispute about manning—the machine assistants claim they are five short—prevented publication on December 4 last year.

Since January last year unofficial disputes with the NGA machine chapel (office branch) had cost the newspaper 2m copies, it said.

Decision

The men are what is known as "regular casuals" who work a shift at one or more weekly newspapers every week. They, like full-time staff, obtain

ICI shop stewards reject pay deal

BY OUR LABOUR EDITOR

SHOP STEWARDS representing about 45,000 process workers in Imperial Chemical Industries yesterday rejected a company pay offer on the eve of resumed national wage negotiations in London.

The unofficial combine committee, meeting in Salford, Lancashire, said that the offer, which had not been formally communicated to them, did too little for shiftworkers.

They said it was worth slightly under the 10 per cent earnings increase allowed by the Government. The £6 a week rise from Stage One of the incomes policy was not being consolidated into basic rates, and that meant the loss of £2 a week for shiftworkers.

The committee said it was not prepared to accept anything less than a firm commitment to a shorter working week in exchange for settling around 10 per cent.

The one-year productivity deal was negotiated last summer, and helped persuade the unions to stop trying to evade a Stage Two deal, in breach of the twelve-month rule.

Union might vet newsmen

A demand that journalists not belonging to a TUC union should be refused information has been put to the National and Local Government Officers Association.

The union's Sheffield branch has tabled a resolution for the union's conference in Brighton next month which it says will help "combat anti-trade union bias in the media."

Biggest building union moves against site strikes plan

BY OUR LABOUR EDITOR

PLANS for strikes on building sites in protest at a pay offer have been countered by the largest union involved in the building and civil engineering national agreement.

The Union of Construction, Allied Trades and Technicians has told its members to stay at work and ignore action planned by the Transport and General Workers' Union.

This stance may come under fire from militant delegates to UCATT's biennial conference at Dumfries, Scotland, in two weeks' time.

A circular from UCATT's executive, sent out at the week-

end, reminds members that the union has accepted the offer.

"In arriving at this decision, the executive council took into account that in other negotiations where the TGWU had been involved, settlements within the guidelines had been accepted by the union."

The employers' offer is said to total just under the 10 per cent earnings rise stipulated by the Government, and to have been passed by the Department of Employment.

It has been rejected not only by the TGWU, when lay delegates overturned their negotiators' decision, but also by two smaller unions involved, the General and Municipal Workers' Association and the Furniture, Timber and Allied Trades Union.

One union leader estimates that the offer, said to be worth 9.5 per cent, is worth only 4 per cent to the large numbers of workers on payment-by-results schemes, bringing its average value down to about 7 per cent.

Similar complaints about the proposed increase in the guaranteed minimum bonus element of the national wage agreement were behind the TGWU's revolt.

The offer would raise total minimum earnings of craftsmen from £54.60 to £60.20, and of labourers from £47.70 to £52. The present agreement, covering 750,000 construction workers, expires on June 26.

Vehicle statistics 'disclose too much'

BY TERRY DODSWORTH, MOTOR INDUSTRY CORRESPONDENT

PROPOSALS to reduce the number of statistics issued with the monthly U.K. vehicle registration figures are being considered seriously by the Society of Motor Manufacturers and Traders.

The public figures are collected from highly detailed, computerised information prepared by the society to give its members a confidential day-by-day account of their own and competitors' sales performance.

They are published monthly in the form of a Press release which shows the registration of practically every model on the market in Britain along with its country of origin.

The society's policy on disclosure has earned it the reputation of being the most open trade association of its kind in Europe.

Among objections now being raised against this policy is that

the manufacturers who pay for the service are subsidising many other organisations which use the figures.

There is also a deep-seated feeling that the issuing of detailed figures monthly exposes manufacturers to a great deal of unfavourable publicity which it would be better to avoid.

According to this argument, regular and detailed publication has exacerbated the discussion about vehicle import levels in Britain, while putting extra pressure on British manufacturers, particularly British Leyland, in their struggle to reassert themselves.

Some executives in the industry would like to see the figures published less regularly. But the compromise formula which seems to be gaining ground is to reduce the volume of statistics now presented in the monthly reports.

APPOINTMENTS

Ault and Wiborg changes

Ault and Wiborg Group has reorganised the executive Board responsibilities of its subsidiary AULT AND WIBORG PLANTS to maintain and increase European interests, particularly in the automotive and refinishing industries.

Additional marketing authority has been shifted to appropriate sales divisions with Mr. Ron Robert, deputy managing director, taking over special areas of corporate development. Mr. Mike Mogridge, executive marketing director, refinishing division and Mr. Henry Dudding, executive marketing director, automotive division, are now responsible for both sales and marketing directly to Mr. Gordon Phillips, managing director.

Mr. Stanley Axon and Mr. Graham Shaw have been appointed regional directors at the Manchester office of HOGG ROBINSON (UK).

Mr. Keith Siddall and Mr. Robert Pickling, have been appointed joint managing directors of C. D. BRAMALL (BRADFORD). Mr. Graham Simpson has been made managing director of Hobsons of Shipley, a subsidiary.

Mr. R. E. Taylor has been appointed sales director, Low Denter Farm Division, BRITISH ENKAALON. Mr. I. G. M. Kovach, who has resigned because of ill-health.

Mr. G. E. Enderby-Smith has become deputy general manager of the FUJI BANK. He is the senior non-Japanese executive in the organisation and as business development officer, London branch, he is responsible for servicing European customers' accounts and investments.

Mr. T. Gold Elyth is to become managing director (magazines, books and distribution) and Mr. N. E. Richards, managing director (newspapers and printing) of ARBUS PRESS from July 8. Mr. C. E. de Lancy, now managing director, will retire following the annual meeting on July 5. The company is a member of the BET Group.

Surveyors 'still suffering from building slump'

By John Brennan, Property Correspondent

SURVEYORS are still suffering from the effects of the building slump according to a workload review carried out by the Royal Institution of Chartered Surveyors.

First quarter figures from the Institution's regular Quantity Surveyors Workload Survey show that the increase in the number of commissions noted in the last autumn review has been sustained. And for the third successive quarter more firms reported a higher level of work in hand.

But the rate of improvement tallied off in the latest survey, as Mr. David Male, president of the quantity surveyors' division of the Institution says that "there is little cause for cheering... yet".

Mr. Male feels that although "the underlying trend of the improvement shown during the previous quarter," the report adds weight to calls for additional Government support.



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Burrell

Pigment Colour Manufacturers

Extracts from the statement by the Chairman of Burrell & Co. Limited, Michael Ashworth, contained in the annual report for the year ended 31 December 1977:

"The year has been a year of far greater difficulty for the company than any year since 1973. The main reason for this is the severe drop in demand for our products, which has led to a significant reduction in sales and a corresponding increase in losses."

"The Board is aware of the need to reduce costs and improve efficiency. It has therefore implemented a series of measures, including the reduction of staff and the rationalization of the product range. These measures are expected to result in a significant improvement in the company's financial position by the end of the year."

"The Board is also aware of the need to improve the company's reputation and to attract new customers. It has therefore implemented a series of measures, including the improvement of the company's marketing and sales efforts. These measures are expected to result in a significant increase in sales and a corresponding improvement in the company's financial position by the end of the year."

"The Board is confident that these measures will result in a significant improvement in the company's financial position by the end of the year. It is therefore recommending a dividend of 10 pence per share for the year ended 31 December 1977."

"The Board is also aware of the need to improve the company's reputation and to attract new customers. It has therefore implemented a series of measures, including the improvement of the company's marketing and sales efforts. These measures are expected to result in a significant increase in sales and a corresponding improvement in the company's financial position by the end of the year."

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And on the other, East Anglia, Wales, the Midlands and much of the North.

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Not that the benefits stop at the coast, of course.

Sailing from Felixstowe, for example, a truck can reach many parts of Europe within 36 hours of leaving home.

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FUEL CONSUMPTION, TYRE WEAR AND
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Technical Page

EDITED BY ARTHUR BENNETT AND TED SCHOETENS

COMPUTING

Micros make minis look expensive

GAMMA Computer Products, the newest joint venture offshoot of Gamma Associates group, has added to and rationalised its range of micro-based systems under a family name—Olympic.

Three complete packaged systems make up the Olympic family: two new offerings, Triton and Poseidon, and the recently announced Proteus portable system.

All three members are available in commercial and scientific versions. Typical applications include small businesses, laboratory users, shop floor users, systems builders looking for components, process engineers developing automated control systems and large companies implementing distributed computing networks.

Machine plant in Dublin

AMDAHL's next step in establishing a major and growing presence in Europe takes place in Dublin on May 24, when chairman Gene Amdehl opens the Corporation's first computer production plant outside the U.S.

Initially, production will be carried out in the Dublin suburb of Glasnevin, using newly built but temporary premises. After one year Amdehl expects to be occupying permanent facilities at nearby Swords.

Redifon makes its mark

BARELY THREE weeks after the official launch of the R-Range equipment from Redifon, the company has announced sales exceeding £2m, including 25 per cent of orders from Czechoslovakia.

Redifon, which claims to be as important to the UK computer industry as ICL, and to have received no Government assistance at all, is playing a major role in penetrating East European markets for up to the minute data processing technology.

There is no doubt that users in this market area are prepared to go a long way in the application of new technology. For instance, Bastro, the engineering centre which is part of the Czech Ostrava coal mines, is to have a real time, on-line stock

Proteus, the smallest, is a complete computer system packaged in a single unit the size of a traditional VDU. Like all members of the Olympic family, Proteus is built around the DEC LSI-11 processor with 64 kilo bytes of usable storage. Proteus comes packaged with over a megabyte of direct access storage on floppy discs. Also included are a 12 line by 40 character Burroughs Self Scan display panel, a keyboard and a Centronics printer working at 80 characters per second over 132 print positions.

Triton combines a 3.75 Mega-byte floppy disc subsystem with the LSI-11 processor, a 180 character per second printer and at least one high resolution visual display unit into a compact system package.

Poseidon has 20m. byte storage capacity and 300 line per minute printing capability. In many applications Poseidon provides more storage and better throughput than several much larger computer systems.

Gamma at Broadway House, 7/9 Shaftesbury Way, Wokingham, RG11 1BH. 0734 794941.

PROCESSING

Deep freeze works efficiently

DEMONSTRATION facilities for cryogenic processes opened by British Oxygen in Derby contain a number of pieces of equipment which will be new to Britain.

The plant is used to show potential operators how low temperatures can be used in scrap reclamation, freeze grind-

ing, and deflashing projects. Centre-piece is a rotary freezing tunnel, first of its type in the UK, designed for long-term applicability to many types of reclamation operations. Equipment was developed in conjunction with Newell Dunford, Misterton, Yorks on the basis of

Sheet cut precisely

POLYESTER photographic film, width with a lead screw, with distance from the datum continuously monitored by an optical encoder and digitally displayed.

The hinged beam carrying the longitudinal cutter is brought down by hand and then clamped pneumatically for the cut to be made. The long hardened steel edge of the table against which the cutting wheel presses and the rotator gives the high accuracy, but is easily replaceable on site by the operator.

More on 076383 461.

INSTRUMENTS

Fast tester of circuits

RELATIVE newcomer to the automatic test equipment marketplace is Columbia Automation, a small British company which is able to offer digital circuit test equipment in the £7,000 to £20,000 range as opposed to the £25,000 to £100,000 bracket often encountered with the majors in the field.

The company's latest product is driven by a microprocessor and can be used with a variety of peripherals, including VDU, teletypewriter, fast paper tape punch or floppy discs. Memory modules are available in both random access and read-only form for the storage of test programs and system software.

Testing can be performed on up to 200 bi-directional test lines in the standard system, expandable in blocks of ten.

ELECTRONICS

Keeps big spikes out

TRANSIENT voltages in excess of 40,000 volts containing energies up to 16,000 joules can be kept out of sensitive electronic equipment using solid state protectors put on the market by U.K. Power Systems of Croydon.

The devices remove all unwanted surges and spikes from electrical systems within six

The system, called Car 2 is programmed by instantly recognisable statements which can be used to exercise the unit under test according to its normal function, and test it for expected outputs.

It is also possible to use programs generated automatically by the company's D-LASAR system; this permits program development in a few hours from basic circuit data.

Columbia is at 394 Bath Road, Slough SL1 6JA. 06236 4816.

Powerful scanner

DIGITAL, analogue and hybrid printed board assemblies can be dealt with by the model 2270 tester from GenRad, solder shorts, open circuits, wrong or missing or out of tolerance parts all being identified in a single pass and described in plain English on a printer.

More from the company at Bourne End, Bucks (06283 28611).

MATERIALS

Simple way to bar the cold

INSTA-SEAL is the name which has been given to a single-component urethane foam dispensing system, for a variety of sealing and caulking applications in commercial, industrial and residential markets. Its simplicity of operation makes it attractive to the home handyman as well.

Leakage of cold air through cracks and crevices in even well-insulated homes accounts for about 20 per cent of the load on a home's heating system. This figure can be reduced by as

SECURITY

Stops loss from libraries

ILLEGAL borrowing, or stealing of library books has increased so rapidly since the early 1970s that the authorities are being forced to install electronic detection systems to catch culprits.

According to one specialist, something like 80-100 of these book detection systems—costing up to £12,000 each—will be installed this year, the largest number since they were introduced a few years ago.

Geoff Wride, UK manager for Library Systems, 3M United Kingdom, a major supplier, believes that book losses could be between £15-£25m a year. He says 70 of 3M's book detection systems at work in public and

much as 50 per cent by making doors and windows "tighter". The new product could be a useful means of minimising loss of heated air through cracks and crevices around window and door installations.

Insta-Seal is available in single, factory-prestressed containers, ranging in size from 1 to 50 lb. All containers are disposable and each is complete with equipment necessary to dispense a high quality foam.

The material, when dispensed from the nozzle, is fully expanded, eliminating the need for guesswork on the part of the operator as to the exact amount of foam required completely to fill a gap, as well as time necessary to trim any excess after the material has cured.

Another difference between the product and conventional gaskets and joint fillers is its density.

Urethane foam has a density of two to four pounds per cubic foot, whereas latexes and other foams have a density of 8-10 pounds per cubic foot. The foam adheres to most surfaces without pre-treatment, and adheres to wet surfaces is excellent, an important consideration on a building site.

Atlas Products and Services, Weaver Road, Erith, Kent DA11 3EP. Tel: 0305 757550.

Alternatively the system can be used in a "by pass" mode. In this case the books are treated with a permanently "active" device, which when issued are immediately checked into the system, thereby avoiding the detection area.

In both modes of system when an attempt is made to take an unprocessed book through the system, the person is alerted by a loud alarm bell sound, and the person is alerted by a small portable unit, able to "turn off" the device but in such a manner that no obvious change in the appearance of the book is apparent. The change is an electronic one which means that even if the reader should look at the book on the same day or week of issue return to the library that book will not need to be handled again by the library staff. This is particularly important in educational environments where students frequently come about the subject of reference material while carrying with

METALWORKING

Gives exact solder heat

TIP temperatures of Antex 40 and 50 watt soldering irons can be kept within 2 per cent of any selected value between 150 and 420 degrees C using the TSCU soldering station put on the market by the company.

The unit, which also acts as a transformer for the 24 V supply and a circuit which controls the bit temperature by means of a thermocouple in the top of the instrument's heating element.

Power to the element is switched only when the voltage sine wave crosses zero voltage level, eliminating interference. The copper bits are iron-coated and are plated with nickel and chromium to prevent loss of bit mass, and bits are changed simply by sliding them off and on to the stainless steel shaft on the containing the heater. The new unit measures 145 x 104 x 142 mm and weighs 470 gms.

More from Antex (Electronics), Armada Way, Plymouth, Devon (0752 67777).

IN BRIEF

Switches and indicator lights with long life and low power consumption are available in the Diachite illuminated components distributed in the U.K. by Pye Electro-Devices of Newmarket (0638 5181).

Intel has announced a "second generation" 8K x 1 bit dynamic random access memory. The two layer polysilicon process used gives low-power consumption, freedom from line noise and the ability to operate in latched or unlatched output mode. (0865 771431).

New memories are also announced by General Instrument Microelectronics—32K read only types with 450 and 350 nanosecond access times respectively, making them directly compatible with all popular microprocessor families. (01439 1581).

Continuous wave laser diodes complete with optical fibre, available in which 500 microwatts are emitted at 820 nm can be supplied by Walmore Electronics. Maker is Laser Diode Corporation. (01-836 1228).

A tiny motor gearhead from Trident Engineering is small enough to be mounted directly on a printed board for turning potentiometers and can also be used in servo products and tape drives. (0734 78644).

Aids shaping of metals

A NEW cutting and grinding fluid called Crownol 527 has been introduced by W. F. Smallman and Son of Great Bridge Street, West Midlands.

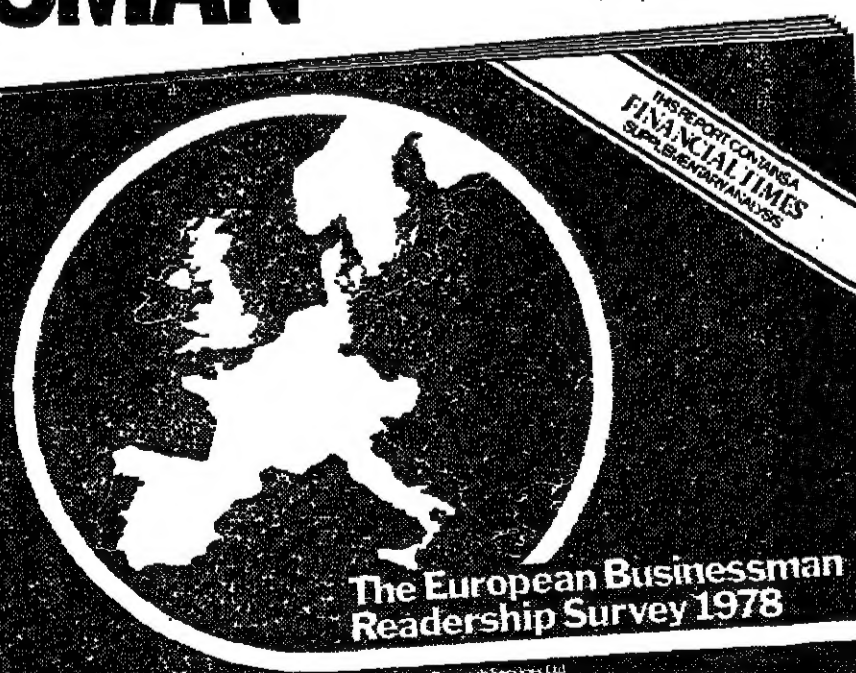
The fluid forms a semi-transparent emulsion in water and is claimed to be particularly suitable for arduous metal cutting operations. In different dilutions the oil is suitable for many grinding, metal cutting and rolling applications.

Also just put on the market is a tube drawing and metalworking lubricant formulated by Valvol Lubricants, of Excelsior Buildings, 61 Bridge Street, Walsall, West Midlands.

There is no need for phosphating, says the company, and application involves only a single cold dip. The product is described as a super-fatted aqueous based material which results in a good bright finished surface, especially when tube drawing.

European Businessman Readership Survey

EBRS 1978. WHAT THE EUROPEAN BUSINESSMAN READS.



The European Businessman Readership Survey 1978

EBRS is the European Businessman Readership Survey, jointly sponsored this time by Les Echos, Le Figaro, Berlingske Tidende, Handelsblatt, Vision and the Financial Times.

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Description	Telephone
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9 DIE, 1750 FT/MIN SLIP TYPE ROD DRAWING MACHINE equipped with 3 speed 200 hp drive, 20" horizontal draw blocks, 22" vertical collecting block and 1000 lb spooler. (Max. inlet 9 mm finishing down to 1.6 mm copper and aluminium).	0902 42541/2/3 Telex 336414
8 BLOCK (400 mm) IN LINE, NONSLIP WIRE DRAWING MACHINE in excellent condition 0/2000ft./min. variable speed 10 hp per block	0902 42541/2/3 Telex 336414
24" DIAMETER HORIZONTAL BULL BLOCK By Farmer Norton (1972).	0902 42541/2/3 Telex 336414
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STRIP FLATTEN AND CUT-TO-LENGTH LINE by A. M. Max. capacity 750 mm x 1.6 mm.	0902 42541/2/3 Telex 336414
6 BLOCK WIRE DRAWING MACHINE equipped with 22" dia. x 25 hp drawblocks.	0902 42541/2/3 Telex 336414
215 DIE M4 WIRE DRAWING MACHINES 3,000ft./min. with spoolers by Marshall Richards	0902 42541/2/3 Telex 336414
3 CWT MASSEY FORGING HAMMER enormous single blow.	0902 42541/2/3 Telex 336414
9 ROLL FLATTENING MACHINE 1,700 mm wide.	0902 42541/2/3 Telex 336414
7 ROLL FLATTENING MACHINE 965 mm wide.	0902 42541/2/3 Telex 336414
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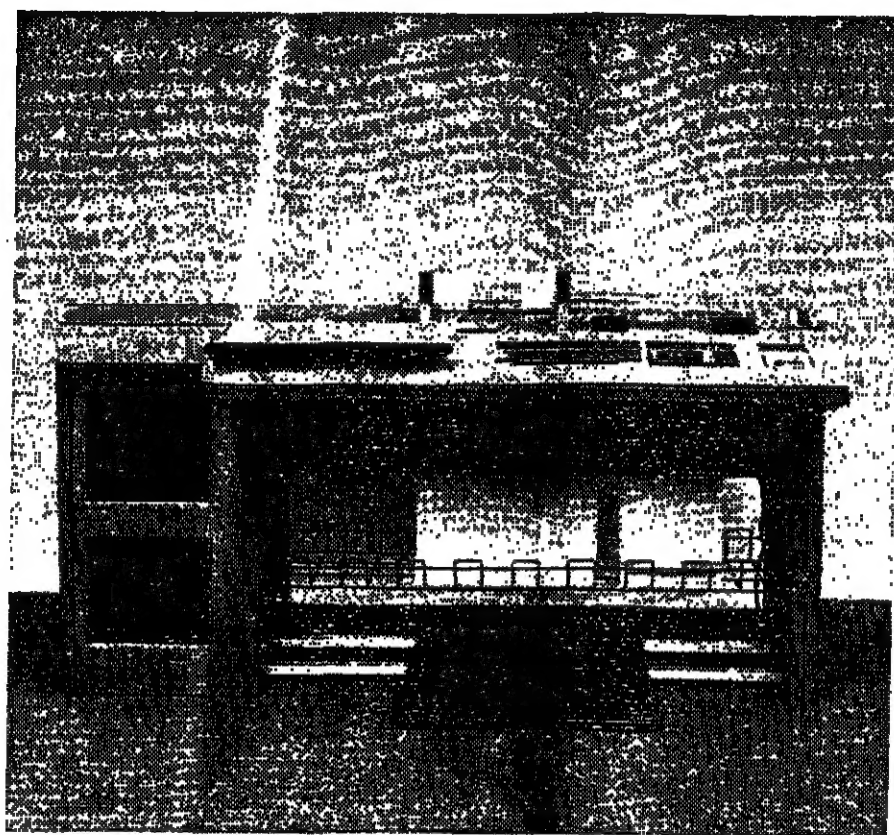
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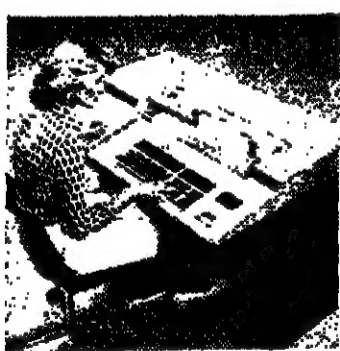


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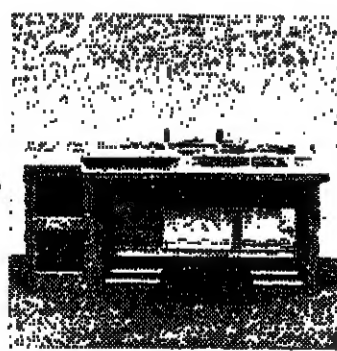
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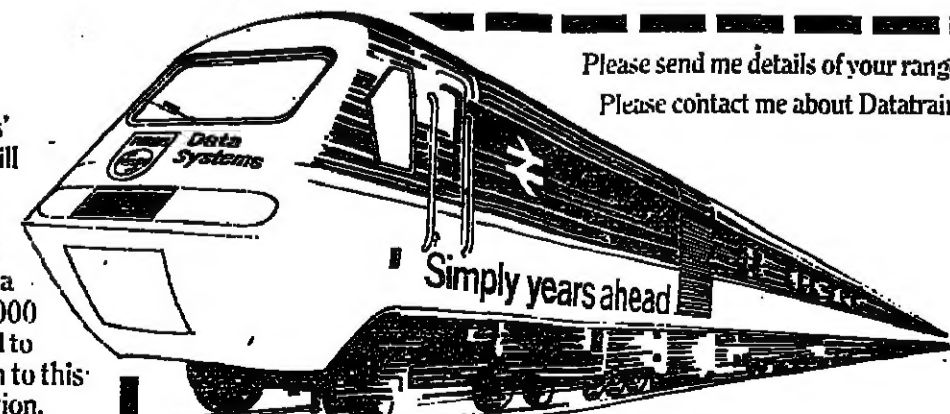
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Nottingham	7th June	021-550 8171	Bristol	16th June	0272 293561
Sheffield	8th June	061-798 9191	Southampton	19th June	0272 293561
Newcastle	9th June	0632 774168	Reading	20th June	0272 293561
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Glasgow	13th June	041-221 8116	London Marylebone	22nd/23rd June	01-836 4360

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Building and Civil Engineering

£7m Middle East award

A CONTRACT for a new sewerage system in Abu Dhabi, principal city of the United Arab Emirates, has been awarded to Bovis International (Civil Engineering), at a value of £7m. Work includes laying 6 km of trunk sewer, 6 km of subsidiary sewer, construction of two pumping stations and positioning of 180 manholes. Due for completion in 18 months, the whole works are to be finished in an area which requires extensive de-watering before construction can begin.

The Edinburgh office of George Wimpey has received a contract valued at about £2.3m for 200 houses on the Bowhouse Site in Alloa, Clackmannanshire. The local authority in collaboration with the Scottish Development Department decreed demolition in 1976 and the area will emerge as a completely new development. The shells of the houses will be built in the company's No-Fines technique of construction, while three-shop units, with a two-apartment flat over them, will be built in brick.

Work on the scheme will commence shortly. Comprising two main blocks divided into smaller self-contained units with offices on the first floor making a total of nine lettable units, the structure will be of pre-cast concrete columns, steel roof trusses with brickwork and protected metal cladding.

Jobs for Laing

CONTRACTS from ICI and T. Wall and Sons totalling £2.6m have been awarded to John Laing Construction.

The company's Cumbria region will build a £1.6m factory for the manufacture of ICI's Propafilm polypropylene film for the packing market, at Garroch Loaning, Drungans, Dumfries. This will comprise a seven storey reinforced concrete structure with vertical patent metal cladding and two single storey steel framed metal-clad structures.

At T. Wall and Sons' factory at the Friary, Acton, West London, production will continue while Laing demolishes the roof and builds a second storey of reinforced concrete frame clad in profiled aluminium sheeting to be fitted out with specialist finishes. Work on the modernisation of the ice cream factory will start next month and is scheduled for completion by next summer.

Laboratories to be built for Glaxo

DEMOLITION AND rebuilding of the interior of a building at Greenford, Middlesex, for Glaxo Laboratories, will cost £1.35m, under a contract awarded to Costain Construction.

Twelve new six-man laboratories and ancillary accommodation will be provided following the rebuilding of the ground and first floors in blockwork rendered both sides and covered with a satin vinyl finish. The work also includes the construction of a new plant room adjacent to the existing building, improvements and additions to the mechanical and electrical engineering installations and provision of air conditioning.

£2m awards to B. B. Kirk

B. B. KIRK (CONSTRUCTIONS) of Skipton, a member of the Charles Hill of Bristol Group has been awarded contracts totalling £2m, which include civil engineering work for the Severn Trent Water Authority, Lower Trent Division at Muttonsey Thorpe Sewerage Works, and a new reservoir for Chester Waterworks Company at Guiden Sutton Lane, Chester.

Building works included in the contract comprise extensions to existing works for ICI Plastics Division at Darwen, Lancashire; 30 old peoples' flats and communal facilities provided by Craven District Council, Skipton; Yorkshire; new offices and car parking at Dewsbury, Yorkshire, for Wellman Mechanical Engineering, and a supermarket for the Co-operative Retail Services at Royston, Barnsley.

Wimpey at home and abroad

A CONTRACT in excess of £5.4m has gone to the Witham, Essex Region, of George Wimpey from the Norwich Union Insurance Group for a mixed commercial and residential complex, called the Mall, Heathway, Dagenham. The commercial development, financed by Norwich Union, is on two levels and comprises a supermarket together with 31 shops fronting on to a covered mall above which are 2, 3, 4 and 7-storey dwellings. These, together with a car park on six split levels are being funded by the London Borough of Barking.

Warehouse for Sunley

THE CONSTRUCTION of a 100,000 sq ft warehouse and office development at Silverdale Road, Hayes, Middlesex, for Ancofit Investments, a subsidiary of Bernard Sunley Investment Trust, is the subject of a £900,000 or more contract awarded to Bernard Sunley and Sons.

Clough Smith in Africa

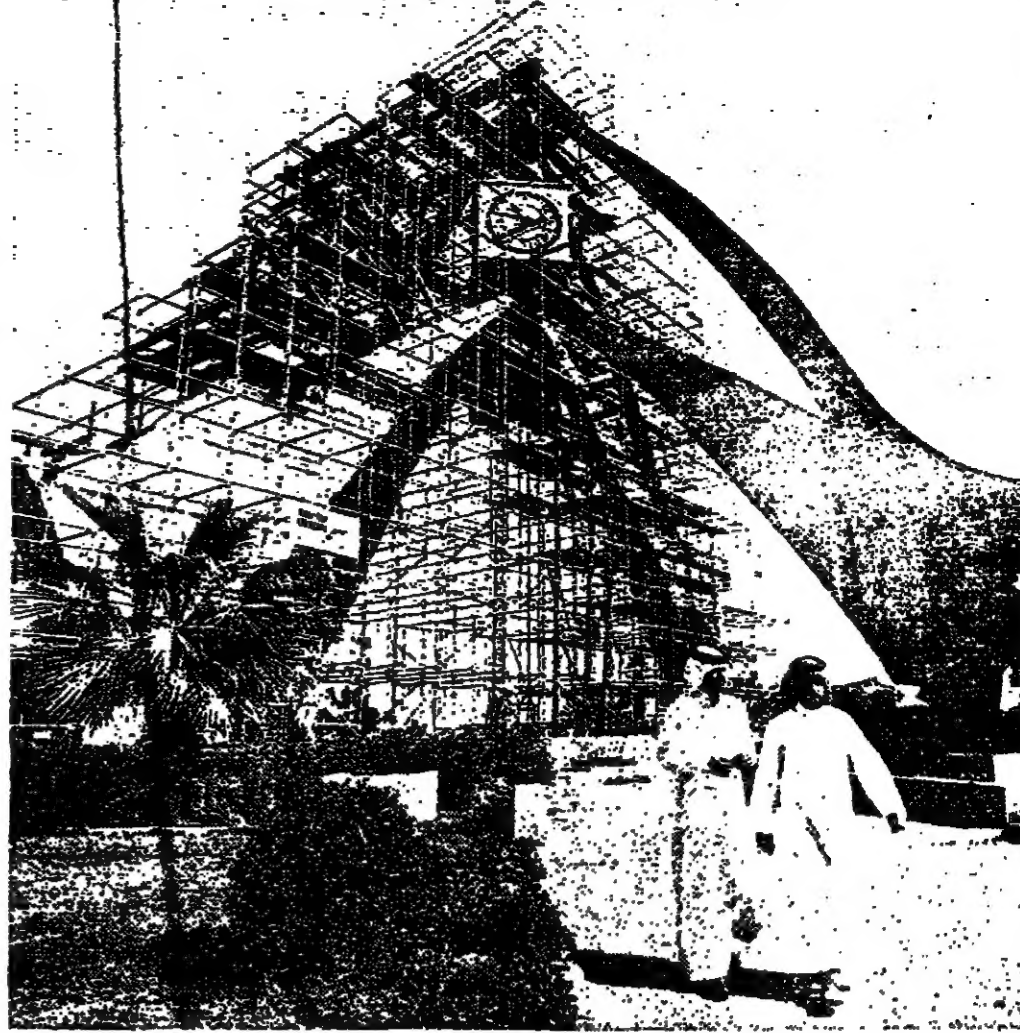
AN AWARD for a comprehensive contract for electrical engineering works covering design, supply and installation of switchgear, transformers, cabling and 50 km of 275 kV transmission line, has gone to Clough Smith, of Crawley, Sussex, at a value of £4.1m.

The company will participate in a £55m irrigation and hydro-electric scheme involving the construction of a dam, 2,200 metres long by 55 metres high,

near Masinga, about 1,500 km north-east of Nairobi, Kenya. A 40 MW hydro-electric power station will be built on the site and the dam will create a 350bn-gallon reservoir 45 km long and 120 square km in area. The 1,000 km long Tana is Kenya's largest river, whose basin supports 20 per cent of the country's population, provides a major portion of its agricultural potential, and the only substantial source of hydro-electric power generation.

£3m Holst cracker job

PENBROKE Cracking Company reports that the main contractor for the construction of its new fluid catalytic cracking unit—Snamprogetti—has awarded to Norwest Holst Western of Cardiff sub-contracts in the region of £3m for offsite civil work. These consist primarily of excavation, grading and construction of such items as embankments, roads, tank foundations, environmental screen walls and trenching for utilities supply.



Dam in Cyprus

THE CONSTRUCTION contract for the Asprokrinias Dam, in Cyprus, is to be undertaken as a joint venture by two Cypriot contractors, Joannou and Paraskevaides (J & P), and Medcon. It was awarded by the Water Development Department of the Ministry of Agricultural and Natural Resources, in Cyprus.

The dam, designed by British consulting engineers, Sir M. MacDonald and Partners of Cambridge, will harness the water of the Serpentine river, providing water storage for the Paphos Irrigation Project, for which construction of the main canal and other works is already well advanced.

A zoned structure with an impervious central core, the dam will create a reservoir of 50m cubic metres capacity with a crest length of 820 metres and a maximum height of 52 metres above river bed level.

Busy in Malawi

W. AND C. FRENCH (Malawi), a member of the French Kier Group which has been operating continuously in Malawi since 1964, has been awarded a contract valued at £2.7m for work in connection with the Blantyre water scheme. The company already has awards in Malawi for the construction of the Reserve Bank Building, costing £4m, a shop and office complex, nurses home and a tobacco factory.

This clock tower built in 1968 in Dubai has been suffering from the elements. Construction is of reinforced concrete and the wind blowing water from the fountain in the centre under the clock caused saturation of the concrete and rusting of the reinforcing steel. Australian contractor AST International has been carrying out the repair work with the aid of Kwikstage scaffolding supplied by Kwikform which is a Costain Group company.

Agriculture in Bahrain

PLANS FOR the agricultural development of Bahrain are to be drawn up on behalf of the Ministry of Commerce and Agriculture by Hunting Technical Services.

Value of the contract is £168,000 and it is being carried out concurrently with a detailed study of the soil and groundwater resources of the island which is being undertaken by Groundwater Development Consultants (International) at a cost of £12m.

Hunting Technical Services is a division of Hunting Surveys and Consultants. Groundwater Development Consultants (International) is jointly owned by Hunting Technical Services and Sir M. MacDonald and Partners.

Guideline for Saudi Arabia

EUROCANADIAN Market Research has produced a Construction Industry Directory based on its market research and consultancy efforts in Saudi Arabia. Intended as an aid to companies interested in selling their products or services in the Saudi market, by providing details of potential customers, agents, joint venture partners, etc., the publication is available for US\$28.00 or equivalent (with order) inclusive of air mail postage from Eurocanadian at 801, York Mills Road, Suite 201, Don Mills, Toronto, Ontario M3B 1X7, Canada.

Bath to back

THE BATHROOM has gone outside in Leicester, where Banbury buildings demonstrated how its purpose designed modular unit, built from a pre-cast stem, was added to the rear of a house at the company's Home Improvement Centre in the heart of a depressed area of the city.

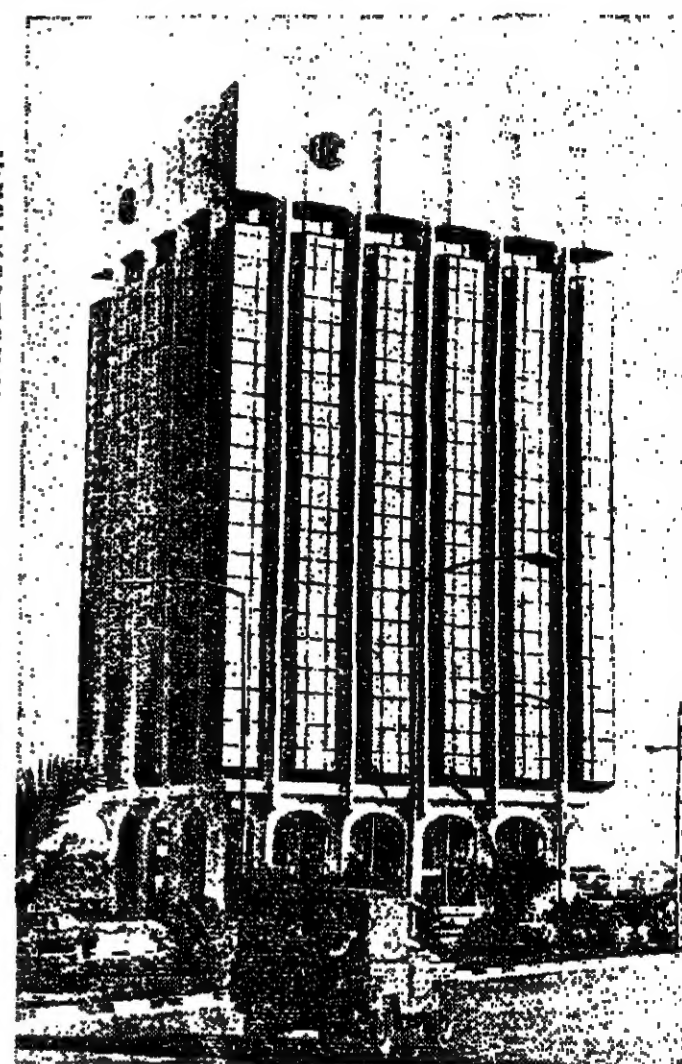
Fast and simple to erect, and built to blend with an existing house, the unit created a back-addition bathroom which, says the company, could be used in slum face-lift programmes with a saving of up to 25 per cent of the cost against traditional building methods. The unit is available in two sizes: the 10 ft by 6 ft will accommodate a 5 ft bath, and the 9 ft x 7 ft one will take a 6 ft bath. Two units can be used together for use as 'back to back' bathrooms on neighbouring properties.

New lift standard

LATER this year a new British Standard is to be published covering the installation of lifts in buildings.

According to Mr. H. A. W. Pettinger, of the Otis Elevator Company in London, the standard will, for the lift purchaser, mean that quotations will come from any lift maker in Europe to the same specification. This should mean a higher degree of standardisation and resulting in lower overall costs and improved safety.

The new standard is BS 5655, and it will replace the old BS 2655. Although most of the changes are of a detailed nature, some involve different approaches. For example, lift safety gear will in future be the subject of type testing under conditions of free fall with full contract load. More on 01-735 9131.



The Bank of Credit & Commerce International in Abu Dhabi. Built by Bernard Sunley and Sons the 15-storey block is clad in glass. Another glass-clad building for the same bank is being built by Sunley in Dubai, on the Deira side of the Dubai creek. Architects for both buildings are Fitzroy Robinson and Partners.

New floor at night

MANUFACTURERS OF food, drink, tobacco, pharmaceutical, dairy, meat and chemical products, may welcome the speed of PML epoxy floor screed which sustains heavy traffic, a 48-hour hardening period is advised. More on 01-397 3344.

Fixes the tiles

A CERAMIC tile adhesive for fixing mosaics and tiles to vertical or horizontal surfaces, indoors and out, is said to be non-flammable, ready to use, and waterproof.

In off-white, thixotropic, the water-based paste from Unibond contains a fungicide to act against mould growth and is said not to cause 'flash fires' when stored or used near naked lights and other heat sources. There is only a slight and harmless odour emitted, says the company, when the adhesive is drying. Available ready-mixed for instant application, the fixer can be applied also as a waterproofing grout. More on 0276 65135.

IN BRIEF

- M. Harrison and Co (Leeds) has received three contracts totalling £274,000 for an office block and warehouse to be built for Farrel-Electronics at Leeds, warehouses and offices for Hanover St George Estates at Rugby and the extension and rebuilding of fire-damaged premises of Doyle and Flockton printers in Leeds.
- Northamptonshire County Council has awarded a contract worth £23,182 to Robert Marriott (French Kier Group) for alterations and extensions to the Prince William Upper School at Oundle, Northamptonshire.
- T. M. Simpson has contracts for plumbing and heating works on houses at Houshillwood, value £628,847, and at Bluchair, at £194,741, both for Tilsworth District Council. Anglo Pacific Construction has received contracts valued at £385,000 and £369,720 for Anchor Housing Association and Durham County Council, respectively. Both companies are in the London and Northern Group.
- A £250,000 order for air handling equipment for the General Infirmary at Leeds, Yorkshire, has been awarded to Matthews and Yates.
- Latest contracts for the Bowley Group include housing in Snipson Street, Cullercoats, Tyne and Wear (£567,000), rehabilitation of properties in the Lower Heaton area of Newcastle upon Tyne (£100,000) and modernisation of dwellings in Toft Crescent, Murton, for Eastington District Council (£292,000).
- Fairclough Building, North East Division, is to build six units for nursery factories, suitable for firms with just a handful of employees or initially even one-man businesses at a cost of £243,000 for Gateshead Metropolitan Council at Blaydon, Gateshead.



Gainsborough had not long been hung when Trollope and Colls came into the picture.

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The Executive's and Office World

EXECUTIVE HEALTH

BY DR. DAVID CARRICK

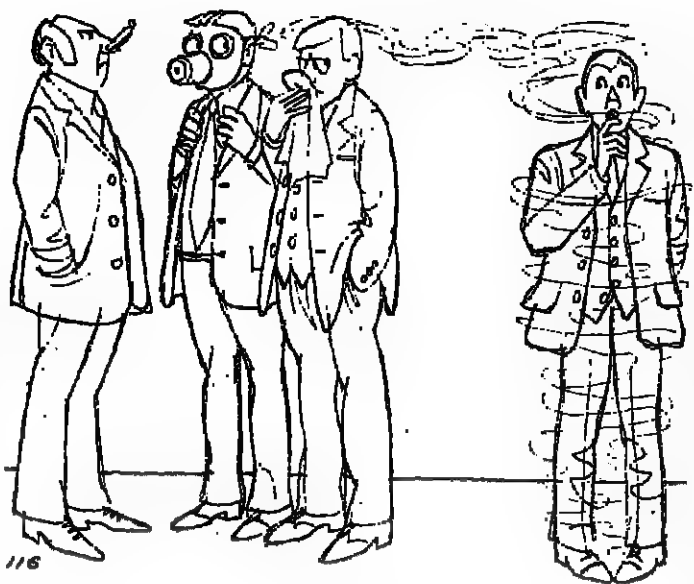
How Beet puts his noxious feet in it

IN OUR "enlightened" age, the most delicate matters may be discussed openly and without a hint of propriety. But the problem of body odour is one that none save the callous dares to mention in the hearing of the innocent offender. A well-known firm used to employ a famous slogan: "Even your best friend will not tell you." That was a half-truth because I suspect that such unhappy folk have no friends in any category of the comparative adjective.

Usually the blameless offender is in no way dirty; indeed, he or she may pay an enormous attention to personal hygiene which, alas, will do very little to help and certainly does not cure the malady. I say malady because these people usually suffer from hyperhidrosis, i.e., they sweat far more than normal. Sweat is essential as a means of cooling the body. If, however, the controlling mechanism of the sweat-glands is overactive, it is not unusual for the closely associated grease-glands to be over-enthusiastic. Frequently this leads to a condition known as bromidrosis, a highly offensive odour caused by bacterial decomposition of sebum and dead skin.

If the victim is made aware of his problem, certain remedies can be employed. Mild tranquilisers which reduce over-activity may help; small doses of atropine-like drugs are sometimes of use; frequent dusting with benign powders is of some use as are deodorants, but the latter should be used with caution as they may lead to contact dermatitis in the hypersensitive. For the very bad sufferer, whose shirts or blouses may rot quickly, the last resort is surgery, whereby the sweat-glands are excised in the axillae and thus stopped for ever.

Unfortunately, the person suffering from this minor yet highly offensive disorder is usually the last to be aware of



"I wonder if it's my bromidrosis?"

the reason for his or her unpopularity.

Years ago, when working in a hospital for the mentally defective, I had a peculiarly embarrassing encounter with such a case. A patient was brought to me in the hospital block by his charge nurse, a man called Beet. Suddenly, an overpowering odour assailed my very sensitive nose. I was annoyed and told Mr. Beet to take the boy away and clean him up.

Merriment

When both had gone, I noticed the head nurse and the hospital charge nurse killing themselves with poorly disguised merriment. I said that the incident did not amuse me in the slightest, whereupon the head nurse spluttered out that they were only laughing because the most noxious effluvia was nothing to do with the patient but arose entirely from Beet's feet. And they told how for ten years the unfortunate man had been unable to retain an assistant for more than one day. Naturally I saw poor Beet and was able to help him to a less unpopular future.

Now when such an unhappy and unaware sufferer is situated in a typical, over-heated and underventilated, modern office,

grave problems arise. Because the subject is one of such delicacy, girls in particular may well resign rather than broach the matter with the offender or their joint boss, and so such a case. A patient was brought to me in the hospital block by his charge nurse, a man called Beet. Suddenly, an overpowering odour assailed my very sensitive nose. I was annoyed and told Mr. Beet to take the boy away and clean him up.

I have frequently been asked how to solve such problems and have no easy answers. If the offender is a new recruit, I try to enlist the aid of a faithful veteran to broach the subject in a friendly manner, to mention in the course of conversation how she, when still a new junior, had also suffered, simply because of the overheated room, and to explain how she overcame this. Sometimes this method proves effective.

Men are even less aware of their personal problems, and the more senior they are the greater the difficulty; for high rank is no protection against being high. One method I have employed with success has involved deception. Talking to the entire office staff I say that I wish to find out if the use of small amounts of an aerosol, called Ozum, does (as the purveyors claim) truly reduce the incidence of airborne infections. Whether or not this can be substantiated, I do know that a few puffs of this penetrating and powerful chemical three times daily certainly masters the prime problem perfectly.

Michael Dixon on an unusual annual dialogue between students and some of the world's top businessmen which began after the May 1968 riots

Managers' counterblast at the academic Left

"WHAT I want to know is whether capitalism can ensure three things," demanded a questioner from the 700-strong audience.

"Can it serve the needs of the poorest instead of the wants of the rich? Can it prevent the waste of scarce resources? And can it provide a technology for the elimination of poverty?"

To any veteran of university conferences mixing business people with students and academics, the response of businessmen to that kind of earnest challenge is all too familiar: a thousand or more words of abashed and sentimental chat about industry and commerce fully realising their social responsibilities.

A definite exception was provided by this month's St. Gallen international management symposium — capitalism's annual counterblast at the academic Left — held at the Swiss town's remorselessly modern university.

Challenge

"No, a free enterprise system cannot ensure such things," came the answer from the business side. "But we don't feel guilty about it, because on the practical evidence available neither can socialism or any other existing kind of system."

What is more, if a society agrees to concentrate on those objectives and takes a political decision to do so, then a free enterprise system is better equipped to achieve them than any other existing.

With the burden of argument thus thrown back upon him, the challenger stayed silent. But it was not only in the question-and-answer sessions that the speakers — eminent industrialists and academics from most Western economies including the U.S. — maintained this blunt insistence on upholding

capitalism against the observed practicalities of competing forms of economic and political organisation, whatever their theoretical possibilities.

Take for example Professor Fred Ikle, holder until last year of the U.S. President's appointment as director of the Arms Control and Disarmament Agency. He went so far as to declare free enterprise a necessary condition of beneficial technological innovation. Planned economies and their associated bureaucracies inhibited individual creativity, he added. Why else was Russia, well endowed with natural resources and bursting with engineers, self-admittedly behind the West in technological discovery, if not in the development of ideas generated elsewhere?

He then went further to warn capitalist countries against overgenerously transferring their technological properties to the poorer nations of the third world. Professor Ikle seemed scarcely to credit the effrontery of the third world countries in bullying the United Nations into adopting a draft code of conduct which imposed on free enterprise states a duty to transfer technology "on favourable terms" to less advanced lands. Natural resources such as petroleum might be "part of the universal human heritage," he said. But technological innovations certainly were not.

They were the creation of people working in a particular economic and social order — the bourgeois order — "vilified" by the Marxist regimes which

were now demanding the free transfer of technology as if it were their Divine right.

"Now don't get me wrong," he added. "Of course we should render humanitarian assistance where we can." But before passing on innovations, capitalist organisations and their governments should pay painstaking regard to the implications for their long-term profits and political security, and insist on a distasteful. "Particularly for advanced technology, we must demand a package deal," Professor Ikle added, which to his mind should require guarantees on human rights in the receiving countries as well as economic returns.

The conference papers given by industrialists such as Herr Franz Luterbacher, chairman of Brown Boveri, and M. Roger Martin of Saint-Gobain, were perhaps understandably less controversial in tone. But I did not hear a single speaker who admitted the slightest doubt that capitalism was not only "the greatest," but also potentially the most compassionate system to live under.

Agreement

"Here everyone is in agreement," commented one of the students who constituted half the annual audience, between lunchtime bites of a monstrous veal sausage. "It is, as you might say, a propaganda conference."

He could not have been more right. The idea of the annual

St. Gallen symposium started as a reaction to the Left-wing student movement which erupted in Paris ten years ago this month. The idea first became reality in 1970 with about 150 each of students and business delegates.

Now more than twice the size, the conference is still organised by the university's international student committee. But the committee receives powerful financial support and encouragement from the foundation set up by Dr. Max Schmidheiny, head of the Swiss Holderbank cement group, and from numerous commercial interests. But at least the names of the self-interested private-enterprise sponsors are there for all to see in the symposium's programmes — which, in my experience, is not always the case with student conferences advocating socialist causes.

Whether this annual three-day preaching of free enterprise achievement reaches significantly beyond an already converted audience, I am not sure. All the students I met there favoured capitalism as a fact, no doubt because they were looking forward to careers in business.

But most had clearly thought little about capitalism as an idea, justifiable by philosophical arguments which to my mind are more cogent than those for socialism. And if free enterprise is to spring back from its long intellectual battering in educational institutions, then it is surely as an intellectual idea that capitalism needs promoting.

"The constraint, you see, is this," said one of the more philosophical students, cocking his head towards the platform where yet another industrialist was reciting statistics. "Sometimes some of the academic speakers tell us something new. But these industrialists just read their texts, and almost everything they say, we have read already in our newspapers. However, it is because they will meet important employers, that most of the students come here. It is a choice between having industrial speakers who inspire no one, and having inspiring speakers who would have no one to inspire — a contradiction of capitalism, perhaps."

Spontaneous

Nevertheless, there were moments when a spontaneous student murmuring showed that a thought from the platform had struck fertile ground. The most noticeable occasion came when Dr. Bodan Hawrylyshyn, of the CEI management school in Geneva, was summing up as chairman of the symposium's second day. It was simply not true, he said, that nations had to choose between totalitarian systems of the Marxist kind and the individualistic forms of capitalism of the West.

"There is a third way, look at the economic success now of Japan, South Korea, Taiwan, Singapore. They have free enterprise, not totalitarian economies. But their capitalism does not so much insist on asserting the freedoms of people as individuals. They believe in self-subordination to some larger society which contributes to the general good."

"Is that perhaps the winning combination for the future?" he added. "And if so, is Western capitalism flexible enough to adopt it?"

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"Gentlemen, I have stayed silent long enough."



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"Pshaw! A functional substitute, indeed. It's high time I said something."

"There are, don't you know, 17 different qualities of heuga carpet tile."

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"In short, there are tough, hardwearing heuga tiles. And there are luxurious hardwearing heuga tiles."

"But whether tough or luxurious, all heuga tiles are made to double the wear of conventional carpet."

"Let me explain: in your office, not much more than 40% of the carpet gets well and truly worn. Indeed, carpet behind doors, alongside skirting, under furniture, isn't used at all."

"But heuga carpet tiles can be picked up and moved round to even out the usage, and inhibit

depressingly ugly wear paths."

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"As you can see, gentlemen, all this adds up to something more than toughness or luxury."

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"Aren't you delighted that just for once, I said something other than 'baa'?"

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The facts about car imports

BY GEOFFREY OWEN

ONE OF the few British industries which provides prompt and regular information about production and sales performance is the motor industry. Shortly after the end of each month suppliers, dealers, journalists and anyone else with an interest in the business has access to detailed statistics of sales by company and by model. Although some other European countries are more secretive, there is nothing unique to the UK about this. The U.S. has an even more comprehensive supply of data. The British system has been operating for several years, apparently to most people's satisfaction. But there are rumblings within the industry which could lead to a reduction in the amount of information made available.

Post-mortem

One line of argument is that the figures are published too often. Is it really necessary, some people ask, for a public post-mortem to take place after each month's performance? Ups and downs in an individual company's market share may be due to special circumstances—a shortage of stock, a major sales promotion drive or whatever—and the month-to-month changes are given an importance they do not deserve; why not publish figures on a quarterly basis, giving a fairer representation of what is happening in the market?

There are several objections to this. One is that the monthly figures will still be circulating among the manufacturers. It is inevitable that those companies which have done particularly well will allow their figures to be made public. The result will be a series of leaks and counter-leaks which will be unsatisfactory for all concerned. If the figures for a particular month are distorted, it is up to the manufacturers or the Society of Motor Manufacturers and Traders (which issues them) to explain what happened—just as the Government's statisticians try to explain anomalies in the monthly trade figures.

Although the figures are said to be costly to collect and process, it would be a retrograde step for an industry which declared a few years ago to be more open with the public to retreat into secrecy. But there is another reason for dissatisfaction among the manufacturers. This concerns the vexed question of "captive" imports, that is, those vehicles which are imported from overseas associates of UK-based companies. Ford, General Motors and a lesser extent Chrysler have all been bringing in cars from their Continental factories on an increasing scale.

In the first four months of this year, for example, nearly a third of Ford's car sales in the UK were imported. There is a problem, however, in defining what constitutes an imported car. Government statistics are based on the principle that if a car contains more than 50 per cent by value of foreign-built components, it counts as an imported car, even if it is assembled in the UK. In the S.M.T. figures, the location of assembly determines whether it is "imported" or not. Thus any Minis and Allegros assembled by Leyland in Belgium and shipped back to the UK count as imported cars, even though the components are virtually all British-made. A car assembled in the UK by Ford or Vauxhall from largely imported parts counts as a British car.

There is a view that the interference of components by the U.S.-owned companies has reached a point where it no longer makes sense to distinguish between "British" or imported cars; engines might be manufactured in Dagenham, exported to Spain for use in the locally-built Fiesta, then shipped back to the UK as a complete car. What matters is these companies' overall contribution to the UK balance of payments, which is very substantially positive. So it is suggested, the cars sold by Ford or General Motors in the UK should simply be regarded as Ford or General Motors cars and their country of origin should not be specified.

Legitimate

It would be regrettable if this argument were accepted. Captive imports by the American companies have been a significant factor in pushing import penetration in the UK to not far short of 50 per cent. Equally, the European activities of the American companies, as well as the weakness of the UK car market, are part of the reason why the UK share of Continental car markets is so low.

The American companies are very large contributors to the UK balance of payments and they deserve all credit for that. But there is a legitimate interest in where their source of components and their complete vehicles. It is impossible to understand the UK's import-export performance without knowing what the multinationals are doing. Using location of assembly as the criterion is not ideal and perhaps it might be preferable to revert to the 50 per cent definition. But some definition is essential; any attempt to suppress or blur the figures should be firmly resisted.

Making a breach in confidentiality

BY JUSTINIAN

CONFIDENTIALITY of information supplied to a professional adviser does not create a privilege against disclosure of that information in proceedings before the courts. That principle was decisively restated by the House of Lords last week in an appeal from the Northern Irish courts.

In doing their Lordships a series of cases in the English Court of Appeal over the last few years that gave some protection to hospitals in the disclosure of the case notes of their patients to the plaintiff. The specific problem arose out of a change in the law in 1970. As a result of a committee report on Personal Injury Litigation Parliament introduced a wholly new procedure. Even before an action is started the prospective plaintiff can ask the prospective defendant to produce any documents he has which are relevant to the case. The court may then order the defendant to hand them to his opponent for the purpose of pursuing his litigation.

Power

The same Act provided that a court could order a person who was not a party to litigation to disclose relevant documents.

The practice followed in English Courts since the 1970 Act has been to make orders confining the production of hospital records—at any rate in the first instance—to the production of the notes of the patient's medical history, not to the layman or his legal representatives. In one of the cases which it ever faced whether the courts had any power to restrict the ambit of disclosure.

Instead, the courts had proceeded on the basis that confidential documents should be protected against any disclosure essential to the determination of issues arising out of the claim. Not all the medical notes are the property of the hospital; some are the property of the patient or his legal representatives. A Mr. Melvor started an action against a Mr. Reid in the courts in Belfast for damages for personal injury sustained in a car accident in September, 1975.

One of the issues was whether Mr. Melvor's total incapacity for work since the accident (and in future) was caused by the injuries sustained in the accident or by a pre-existing cardiac or vascular condition. It was not disputed that hospital notes, X-rays and the like relating to the treatment of Mr. Melvor prior to the accident were in the custody of the Northern Health and Social Services Board, and were highly relevant to the litigation.

The most compelling argument, advanced by Mr. Reid, was that his reports are of a confidential nature and if revealed might discourage frankness.

Prospects

The last argument might have carried weight if the disclosure which the court ordered was to the world at large. But disclosure of documents in litigation is restricted for use in that litigation. The recipient of the documents may not put them to any purpose other than the litigation in hand.

Difficult

The hospital authorities argued that the consequences of breaching the confidentiality were so dire that Parliament must have intended to confer a power on the courts to protect professional records. What are those arguments, the House of Lords dealt with so dismissively?

First, medical notes and records are difficult for laymen to interpret. That kind of protection, the Lordships said, is not readily applicable to a profession which also tends to indulge in obscure language. Then it was said that the doctor's fears about the patient's future health might, if disclosed to the patient, cause him deep distress and even retard his recovery. That is the traditional plea of the medical profession which carries less and less weight with a public which increasingly demands to know from its medical advisers what is wrong.

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Scots passion can prove a two-edged weapon

BY TREVOR BAILEY

IT HAS BEEN a bad eight days with two good feet and prepared to take on anyone. The latter, although one of the best players in the world, was beaten by their old enemy, England, in the most significant of the home internationals. Although this defeat by a late goal, following a mistake by goalkeeper Rough was underplayed, it was a blow to the hopes of the home internationals. It must be admitted that neither team suggested world champions. Despite this unimpressive third place in the final table, it would be unwise to write off Scotland's chances in the World Cup in Argentina. They possess several qualities which should carry them through the final stages of the competition, but I would be surprised, though delighted, if they finish higher than losing semi-finalists, and they will need to play considerably better than they have done recently to go that far.

The manager, Mr. Ally Macleod, has used the home internationals to work out his most effective combinations. His final selection will be a formidable team, even if both collectively and individually they are several countries' level. Brazil and West Germany with greater flair.

Scotland have experience, a belief in themselves and four world-class players, two defenders and two forwards, which is perhaps one short of the number normally found in the eleven winning the World Cup.

McQueen is not only a commanding central defender but a brilliant ability of scoring goals from set pieces, and Jardine, too, is an excellent defender. In many ways the most satisfactory feature of Saturday's encounter for Scotland's manager was the understanding shown by his centre-back and the ball players and Ritchie, whose crisp, confident performance by Kennedy at right-back.

The two outstanding attackers are the brilliant natural winger Willie Johnston, and the mercurial centre-forward Dalgleish. The former is in the classic mould, fast, clever and arrogant, with infectious enthusiasm, and finally, most vital of all, Scottish passion.

Providing Scotland beat Peru, which although one of the weakest of the South American sides will be harder than it looks, they can hardly avoid reaching the last eight, or thereabouts, of the World Cup. The Scots have the same type of passion for Soccer as the Welsh have for Rugby. It is more than a game, almost a religion, and can be seen in many ways. When a player puts on the blue shirt he will, like the Welshman who has donned the red jersey, draw in stature and pull out that little extra to the delight of his supporters and the consternation of the opposition.

This passion is also to be seen and heard in their followers. The Hampden crowd not only cheer loudly and incessantly throughout, but are still roaring at the end, whereas at Wembley, with England losing 1-0, a considerable portion of the spectators would already be on their way home.

This fervour enables Scotland to lift their game and defeat a more talented team or to come back from behind when all seemed lost. It is marvellous medicine, a wonderful stimulant, but there is a danger. It could also lead to a loss of control by the players, several of whom are far from pasty characters. This could prove fatal in South America, where the referees will be hard on offenders.

Jordan's ultra-passive style is unlikely to be popular and may, well not be tolerated. Willie Johnston, Hartford and Ritchie are all too likely to retaliate when provoked and one wonders whether Brian Clough's calming influence on Burns will stretch to the other side of the world. Scotland will need all their passion, but if they lose control they will lose everything. This is the message Ally Macleod must put across to his side.

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TV/Radio

† Indicates programme in black and white.

BBC 1

6.40 a.m. Open University, 9.30 For Schools, Colleges, 10.45 You and Me, 11.22 For Schools, 1.00 News, 1.25 a.m. News, 1.50 News, 2.15 For Schools, 2.45 News, 3.15 Your Songs of Praise Choir, 3.45 Regional News for England (except London), 3.55 Play School, 4.20 The Adriball Couple, 4.40 Chequers, 5.00 Pop, 5.05 Blue Peter, 5.35 Roobarb, 5.40 News, 5.55 Nationwide (London and South East only), 6.20 Nationwide in Europe, 6.55 The Harlem Globetrotters, 7.20 News, 7.30 News, 7.55 The Harlem Globetrotters, 8.10 Panorama.

BBC 2

6.40 a.m. Open University, 9.30 For Schools, Colleges, 10.45 You and Me, 11.22 For Schools, 1.00 News, 1.25 a.m. News, 1.50 News, 2.15 For Schools, 2.45 News, 3.15 Your Songs of Praise Choir, 3.45 Regional News for England (except London), 3.55 Play School, 4.20 The Adriball Couple, 4.40 Chequers, 5.00 Pop, 5.05 Blue Peter, 5.35 Roobarb, 5.40 News, 5.55 Nationwide (London and South East only), 6.20 Nationwide in Europe, 6.55 The Harlem Globetrotters, 7.20 News, 7.30 News, 7.55 The Harlem Globetrotters, 8.10 Panorama.

FT CROSSWORD PUZZLE NO. 3,673

12.00 Jamiro and the Magic Torch, 12.10 p.m. Rainbow, 12.30 Drive-In, 1.00 News plus FT Index, 1.20 Help, 1.30 About Britain, 1.40 A.P. Curious, 1.50 Monday, 2.00 News, 2.10 Monday, 2.20 News, 2.30 Monday, 2.40 News, 2.50 Monday, 3.00 News, 3.10 Monday, 3.20 News, 3.30 Monday, 3.40 News, 3.50 Monday, 4.00 News, 4.10 Monday, 4.20 News, 4.30 Monday, 4.40 News, 4.50 Monday, 5.00 News, 5.10 Monday, 5.20 News, 5.30 Monday, 5.40 News, 5.50 Monday, 6.00 News, 6.10 Monday, 6.20 News, 6.30 Monday, 6.40 News, 6.50 Monday, 7.00 News, 7.10 Monday, 7.20 News, 7.30 Monday, 7.40 News, 7.50 Monday, 8.00 News, 8.10 Monday, 8.20 News, 8.30 Monday, 8.40 News, 8.50 Monday, 9.00 News, 9.10 Monday, 9.20 News, 9.30 Monday, 9.40 News, 9.50 Monday, 10.00 News, 10.10 Monday, 10.20 News, 10.30 Monday, 10.40 News, 10.50 Monday, 11.00 News, 11.10 Monday, 11.20 News, 11.30 Monday, 11.40 News, 11.50 Monday, 12.00 News, 12.10 Monday, 12.20 News, 12.30 Monday, 12.40 News, 12.50 Monday, 1.00 News, 1.10 Monday, 1.20 News, 1.30 Monday, 1.40 News, 1.50 Monday, 2.00 News, 2.10 Monday, 2.20 News, 2.30 Monday, 2.40 News, 2.50 Monday, 3.00 News, 3.10 Monday, 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BRACKEN HOUSE, CANNON STREET, LONDON EC4A 3BY
 Telegrams: Finantime, London F54. Telex: 886341/2, 833897
 Telephone: 01-245 8000

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Mismanaging money

THE FINANCIAL YEAR has got off to a thoroughly unsatisfactory start in the markets, and not without reason. It has now become clear that the control of the money supply last year was altogether too relaxed, because the authorities did not give enough weight to the forces making for expansion, and this has naturally undermined confidence both in their determination to control it in future and their competence to do so. The money growth in April itself sets a target for the current year some 2 per cent higher than the Chancellor can have had in mind when he laid it down, yet there is no sign that the target is to be adjusted to compensate for this, yet to treat past errors as so much water under the bridge is the very abuse of rolling targets which their critics always feared. Meanwhile, no progress is being made in finding a borrowing requirement slightly enlarged by the rise in interest rates.

Liquidity

The City's reaction to these events is, possibly, exaggerated. Some comment now being circulated recalls the crisis days of 1974, or suggests that the failures already recorded must inevitably cause an increase in inflation in due course. However, money figures at present overstate the underlying trend almost as much as the earlier figures for M3, the sole official measure, understated them. The April money supply was still swollen by earlier foreign inflows, which have subsequently been reversed to some extent. The pile-up of liquidity in the hands of the institutions can be mopped up by sufficiently determined and early action in the markets. Provided that action is not too long delayed—for every week increases the weight of unfunded borrowing—both the money supply and the growth of domestic credit, which is likely to prove the hardest test, can still be brought back within sight at any rate of their desired levels.

The cost, however, will be forbidding. Interest rates approaching 15 per cent on long stock are no trivial burden on the taxpayer when the prospect is that effective credit control and the underlying strength of the oil account of the balance of payments hold out a real prospect of reducing long-term inflation below the levels it has now reached.

Peru after the IMF

THE OUTLOOK for a peaceful return to civilian rule and an advance towards democracy in Peru was clouded on Saturday when Gen. Francisco Morales Bermudez, the President, imposed a state of emergency. His decision comes at the end of a difficult decade.

In 1968 the army took control of the country out of the hands of the elected civilian president, Sr. Fernando Belaunde, when it seemed that the interminable wranglings of Parliament were doing little or nothing to moderate and strengthen a backward and racially divided society.

The military strong man who succeeded Sr. Belaunde, Gen. Juan Velasco, did much to bring Peru into the 20th century and when Peruvian history comes to be written his term of office may well be seen as one of the most important.

Weakening

Two years ago, however, his efforts were seen to be weakening and he was toppled in a bloodless coup by Gen. Morales, a more cautious, conservative and less ambitious soldier. Gen. Morales' term of office has coincided with severe balance of payments difficulties caused principally by the fall in the price of many of the country's export items and compounded by the heavy bills incurred by Gen. Velasco's development programme and arms purchases.

As foreign reserves melted away, the private banks attempted to mount a financial rescue operation but this was not successful and last year Gen. Morales, who had by now decided that the army should start returning to its barracks, was obliged to treat with the International Monetary Fund.

The terms which the Fund sought to impose on Peru have

Moreover, until a resumption of funding has been achieved, the present level of liquidity in the economy dangerously weakens official control both over the exchange rate and the level of demand. A pair of crossed fingers is no substitute for management, and figures distorted by mismanagement obscure the evidence that is needed for sound judgment.

An improvement in existing funding methods is therefore urgently needed to reduce economic risks, real costs, and to allow the system to function smoothly enough to provide the early warnings which a well-managed system signals so clearly. The simplest improvement would be to respond far more promptly to market pressures. When repeated experience shows that prolonged pauses in funding lead inevitably to large jumps in interest rates, it is not even sound electioneering to hold out against the market for week after week.

However, there are always bound to be times when confidence is weak, even if these crises are not self-inflicted, like the present one. A more imaginative approach to funding, with a wider choice of securities, better tailored to the needs of particular investors, would certainly help. Securities to reassure the nervous are especially lacking. The terms of the floating-rate bond launched last year should be reconsidered, and other possibilities of offering some underlying real value remain untried.

Ambiguity

Once a functioning market has been restored, it will become possible to judge again whether the Government's intended borrowing requirement can be funded without undue pressure, and interest rates which hamper recovery. This seems on the whole improbable, with consumer spending now rising strongly, and production beginning to respond. As a first step, the Chancellor should end the ambiguity about whether steps will be taken to finance the tax cuts voted by Parliament: the borrowing requirement was at the extreme limit of plausibility before the cuts and the rise in the cost of debt service. Later in the year, if private sector growth continues, it may not only be the monetary targets which need review. On his past record, the Chancellor may still have time for a fourteenth Budget.

How yen revaluation may strengthen Japan

By CHARLES SMITH, Far East Editor, in Tokyo

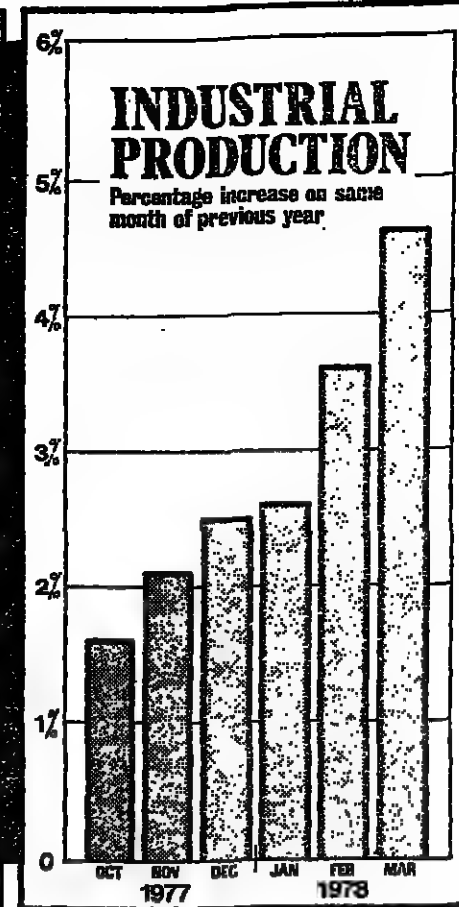
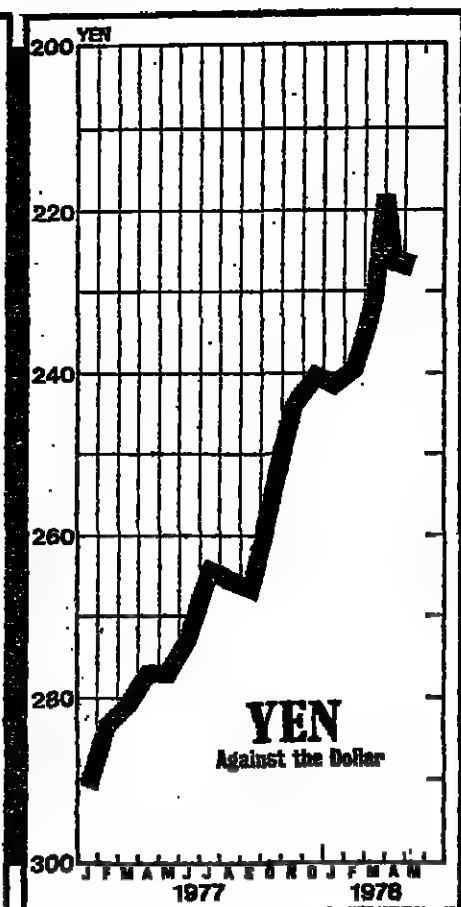
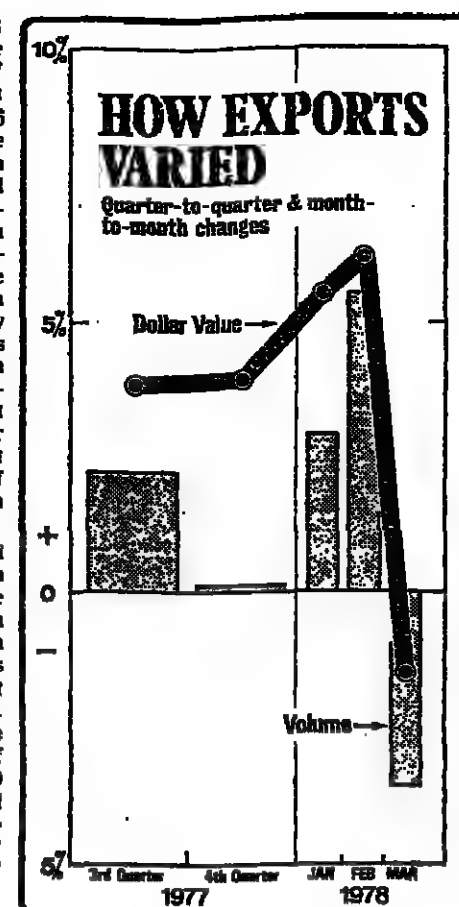
THE Japanese economy has not been crippled by the 30 per cent appreciation of the yen against the dollar that has occurred over the past 16 months. It would probably be truer to say that its long term ability to compete in world markets for sophisticated industrial goods has been strengthened appreciably—always assuming that Japanese businessmen can keep up with the rate of change imposed by revaluation. This conclusion is beginning to emerge from studies of the effects of revaluation being made in government agencies some six months after it was generally claimed that a sharp upward movement of the yen would plunge Japan back into recession.

The more optimistic mood which is being voiced both in the Government and outside can be interpreted in part as a natural swing of the pendulum away from last autumn's exaggerated pessimism about the impact of yen revaluation. When the yen-dollar rate started to move in favour of the yen at the rate of about 10 points per month from the end of September onwards, the initial reaction was that one of the basic certainties of Japanese economic life—a predictable though not a stable exchange rate—had been swept away.

Companies which had been calculating their dollar-based export prices on the basis of an assumed rate of yen appreciation suddenly found themselves faced with roughly double the rate of appreciation they had expected and with correspondingly big cuts into profits on their exports. Japanese politicians, from the Prime Minister, Mr. Takeo Fukuda, downwards, fanned the agitation with frequent predictions that hopes of achieving a real economic recovery in 1978 would be fatally damaged if the U.S. failed to stabilise the dollar and helped Japan "hold down" the yen.

A second and lesser wave of panic occurred early in April when the yen, after holding fairly steady in the first two months of the year, suddenly put on another 8 points against the dollar within a week (to the historical peak of 81 equals ¥218, from which it has since retreated to a more moderate 81 equals ¥227.375). By that time, however, the message was starting to get through that the impact of the initial bout of yen-dollar appreciation had been less disastrous than feared.

Key economic indicators such as the industrial production and manufactured goods shipments indices, which had been dipping worryingly during the late summer of 1977 (before the yen appreciation really got under way), started to turn upwards in the winter. They have kept on gaining in the early months of 1978, though hardly by very



spectacular margins. More remarkably, and a good deal less reassuringly from the point of view of Japan's partners in world trade, exports performed very strongly indeed during the first two months of 1978, although there has been some levelling off since.

In the final quarter of 1977 the volume of Japanese exports showed almost no increase over the third quarter. In the first two months of 1978, however, the export volume rose by 2.9 per cent and 5.8 per cent on a month-to-month basis before subsiding by 3.5 per cent in March. The strength of exports during the first two months of the year can be put down partly to special factors such as the delivery of a ¥80bn (\$370m) floating pulp factory to Brazil in February and a sudden spurt of car exports to the U.S. (caused apparently by the release of pent-up energy after Japanese car exporters had deliberately held back in the final months of 1977). A more fundamental point seems to be that Japanese exporters are finding the going easier than they had feared.

At the beginning of 1977, before the yen had started its rapid rise, most Japanese industries were telling the Economic Planning Agency that they could not export at a profit if the exchange rate went much beyond ¥290 to the dollar. Now the range at which industry thinks it can sell

abroad and make money goes from 240 yen to the dollar (for textiles) to under 300 yen to the dollar for some parts of the electronics industry.

One point which helps to explain the surprising resilience of Japanese industry in the face of revaluation is that, for many industries, exchange rate adjustment has turned out to be a matter of swings and roundabouts. A typical instance is steel (for long Japan's number one export until edged out during the past two years by the sharp rise of car exports). Japanese steel makers, or rather the integrated portion of the industry which starts with basic iron making, are overwhelmingly dependent on imported raw materials. On a rough calculation the steel industry spends about 80 per cent of what it earns from exports on buying imported raw materials, chiefly iron ore and coking coal. That means that some four-fifths of the damage which the industry suffers as a result of having its yen earnings cut by revaluation (assuming that dollar-denominated export prices remain unchanged) is offset by a fall in the yen cost of its raw materials.

Steel exporters in practice have not held their export prices steady in terms of dollars. They have been obliged to raise their dollar prices in key markets such as those of the U.S. and Western Europe by devices such as the U.S. trigger price system which assesses an exporter's costs on the basis of a formula

derived from Japanese production data and provides for anti-dumping duties to be levied on products sold below the assessed levels. Japanese steel exports have not been alone in undergoing price increases as a result of the U.S. trigger price system. Europeans and American steel-makers have raised their prices as well, thereby substantially offsetting the effects of yen revaluation.

Another industry which has managed to make overseas price increases stick since revaluation is the motor industry. Most Japanese car exporters have raised their prices in the U.S. by about 30 per cent since the start of 1977. Car exports have nevertheless continued to grow, at least until last month or so, for two very simple reasons. One is that U.S. car manufacturers have been raising their prices too, though not quite as fast as Japanese exporters. The second point is that Japanese exporters have been exercising "restraint" in the U.S. market so that demand for their cars outruns supply.

Not all Japanese industries are in the lucky position of having foreign customers queue up to buy their products regardless of whether they raise their prices. For Japanese industry as a whole export prices expressed in dollars have over the past 16 months gone up by substantially less than the amount of the revaluation (by 13.5 per cent as against a yen appreciation of 30 per cent). Export prices expressed in yen

have come down (by just under 7 per cent). In order to cut export prices Japanese industry has engaged in a far-reaching and sometimes ruthless cost-cutting campaign which is still going on.

Big Japanese companies do not normally cut costs by dismissing employees, but they have not hesitated to use their market strength to impose price cuts on the hundreds of thousands of small sub-contractors which supply them with components. Primary sub-contractors have usually been able to pass on these cuts to their own, still smaller, suppliers so that the burden of cost cutting has been widely shared.

The real sufferers in this process would appear to have been workers in small companies who have been obliged to accept wage cuts in order to allow their employers to reduce their prices to big industrial customers. The option of avoiding wage cuts by switching to another company does not in practice exist for Japanese workers since anyone who flouts the system of lifetime employment by changing jobs is liable to face a 20 to 30 per cent cut in his earnings.

Apart from forcing their suppliers to cut component prices some Japanese companies have started to increase their overseas procurements of parts and materials. Hitachi, for instance, intends to double its ratio of imported parts from 5 to 10 per cent over the next two years. A hard core of exporters have cut

their export prices, in yen, or held them steady in dollars, because to raise dollar prices, would mean to lose markets, and because they preferred to sell at a loss rather than to close down large production facilities which would be costly and time-consuming to re-start once taken out of operation.

Japanese industry calls such loss-making exports "bleeding exports," though the rest of the world might label them dumping. It seems to have been dogged determination to keep on exporting at all costs that kept Japanese artificial fibre manufacturers active in foreign markets during January and February after the government had expected them to give up.

The success of Japanese industry in adjusting itself to revaluation assuredly does not mean that there are no problems. Certain types of Japanese exports are expected to suffer in price-conscious markets (such as some Arab markets for large-scale industrial plant). Some industries, including a few quite major ones, may well have passed the point of no return and may ultimately have to withdraw not only from exporting but also from Japan's own domestic market in favour of cheap imports from other Asian industrial countries.

In the middle-of-the-road industries like electronics survival promises to be tougher from now on and to depend on the ability to keep on cutting costs and moving into higher technology areas. Hitachi, which started an intensive cost-cutting campaign long before the recent yen appreciation, says it expects to save ¥5bn (about £13m) per month through its Value Analysis programme which includes redesigning and simplifying products, using cheaper or lighter materials, and streamlining every conceivable type of overhead, including distribution costs. Moving into new products for a company like Hitachi means dropping traditional lines like vending machines and advancing into the growing field of micro-computer controlled electronic devices which includes electronic telephone exchanges, micro-wave ovens, and medical diagnostic equipment such as blood analysers and brain scanners.

Hitachi says that if it had not started doing this kind of thing years before yen revaluation struck it would probably be too late to start now. For some companies it may indeed be too late. There will be more bankruptcies and mergers in Japanese industry during the high yen era than there were in the earlier phase of ultra-rapid economic growth. There will also be a hardened bunch of survivors who may well offer tougher competition than ever to their opposite numbers in the West.

MEN AND MATTERS

Saving Britain's kidney patients

For almost a decade a tragic dispute has been raging between the Department of Health and regional health authorities. The dispute has been over the priority to be given to patients suffering from kidney failure, in the course of it thousands of kidney patients have died because of a lack of the necessary facilities.

One month ago it seemed that a solution had been found. The budget provided for 400 extra dialysis machines to be made available. But yesterday Dr. Anthony Wing of St. Thomas' Hospital told the House of Commons that the 400 renal centres, 41 of whom have replied to questions that it is not machines which are the main present constraint on expanding treatment and thus saving more lives. Instead the immediate problem is one of expanding staff and buildings.

Wing, who is Chairman of the Registration Committee of the European Dialysis and Transplant Association, stresses that the "productivity" of Britain's relatively very small number of renal centres is strikingly higher than that of centres in Western Europe. But he stresses the value of "satellite units"—small units backing up a major centre, with a low staff-ratio and a high degree of self-care by patients.

In the 1960s Britain was one of the world leaders in the amount of treatment it gave to kidney patients. Now it comes 13th on a list of European countries graded in terms of patients on treatment per million population.

Elizabeth Ward of the British Kidney Patient Association says that each year 3,500 people who could have been saved die from kidney failure.

The Department of Health thinks this figure a little on the high side but tells me that

only between one-third and one-half of those needing treatment now receive it. It says that even with this year's budget allocations it will take at least five years before the required facilities are available. It is the only area of National Health Service activity where doctors have to choose between which patients to save and which to let die. The Department says that since regional authorities were given the power to allocate their funds as they chose there have been problems over the relatively low priority some authorities have given to the costly problem of treating kidney patients.

The South West Thames region has the lowest rate of treatment of kidney patients in the country. They told me that this was because of the hospitals just outside their borders and that they had no waiting list. But the Department of Health angrily countered that the region's failure to provide proper facilities put undue strain on the already inadequate facilities in the areas around it. They said "Of course there is no waiting list. If patients are not treated they die."

Bertell Ollman of New York University's Department of Politics has come up with the socialist's answer to the game Monopoly. Called simply "Class Struggle" it sports a picture of Karl Marx and Nelson Rockefeller wrestling on its cover.

One worker's chance card reads "You are caught feeling sorry for the capitalists. Victory in class struggle comes to people who think about their own class. Miss two throws." A "capitalist's chance card" has instructions in such spirit as "You embezzle one million from stockholders. No one sees or cares. Move ahead one space."

Ollman had trouble finding manufacturers for the game. Eventually he formed a company with friends: the profits are to go to socialist schools and journals. But Ollman, who was



recently selected from over 100 candidates to head the Political Science Department at Maryland, has now had his suitability questioned by the incumbent. The appointment has also become a major issue in the state's gubernatorial campaign. Unperturbed by such controversy, Sargent Shriver, former head of the Peace Corps, has just ordered seven sets of the \$9.95 game for friends in the Soviet Union. I would like to know who wins.

Spi'l off

Poor Atlantic Richfield. It was only after its ultimatum to the National Graphical Association that its paper, the Observer, finally came out yesterday. But even then it was in so reduced an edition that the oil company's advertisement for a geophysicist did not appear in its pages, though it did in its arch rival, the Sunday Times.

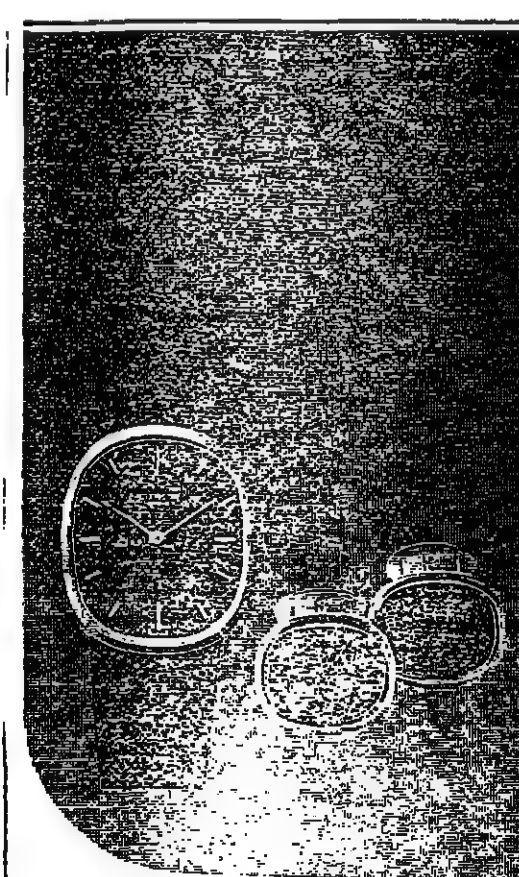
Just shamming

Some of my readers have been complaining that there is occasionally an anti-Irish spirit in my jokes. Unfair, I say there is even a shamrock on my desk diary. But to prove my point, B. R. Ackenhause and I will only be printing Andorran anecdotes in future.

One which we have just heard was from a reader who went into a small Andorran country pub recently. He was greeted by the landlord, who told him that he was too early. "It is half a hour to opening," he added "but you're welcome to take a seat until then."

The reader sat down and opened a newspaper. "That's right," said the landlord, "make yourself at home—and would you care for a drink while you're waiting?"

Observer



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FINANCIAL TIMES SURVEY

Monday May 22 1978

WORLD BANKING

PART ONE: PART TWO WILL APPEAR NEXT TUESDAY MAY 30

Banking communities and their supervisory authorities around the world are still enmeshed in the twin problems of inflation and economic recession. For most the future remains one of uncertainty until means are found to stimulate recovery.

Still
tuned
to a
low key

By Peter Riddell

Economics Correspondent

A DEPRESSING familiarity has characterised discussions over the past 18 months on prospects for the world economy. At meetings of officials and Finance Ministers it is monotonously agreed that the outlook is gloomy and that growth is unlikely to be sufficient to prevent a rise in unemployment unless concerted action is taken. The emphasis may change but the message has been the same — from the Puerto Rico summit of the leaders of the seven major industrialised countries via the London meeting a year ago to the preparatory talks ahead of the Bonn summit in mid-July.

While 1978 has in many respects looked like being a repeat of 1977, the mere con-

tinuation of poor performance has aggravated and not lessened the problems. Mr. Emile van Lennep, Secretary-General of the Organisation for Economic Co-operation and Development, argued earlier this year, "it would be wrong to underestimate the dangers involved in the persistence of an inadequate and maldistributed rate of growth" in the industrialised countries. He went on to highlight the social and economic costs of high unemployment, the prospect of continuing serious payment imbalances, worsening problems in particular industrial sectors, and the steadily growing pressures for protectionism.

This prospect has given an increased urgency to the Bonn summit but there are no great hopes that anything substantial will be agreed in the key areas of currency stabilisation and action to boost economic growth rates.

The danger is that the current faltering economic recovery could turn into a new recession in 1978, aggravated by growing protectionism. The prospect was summed up by Mr. Denis Healey, the Chancellor, at the recent meeting in Mexico City of the International Monetary Fund interim committee, which he chaired. He said there was "a danger of the world economy entering a deflationary spiral unless those countries with large payments surpluses took action to stimulate demand."

A slow, and unevenly distributed, rate of expansion has been the most clearly identifiable problem of the past two years, explaining much of the payments imbalances within the industrialised world and the resulting currency instability. All this is against the background of a continuing large surplus for the oil-producer countries (OPEC) taken as a whole.

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After a sharp initial recovery from the recession in late 1975 and early 1976, economic activity in most of the main industrialised countries has since grown at a slow rate with only short-lived bursts, such as in the first few months of last year.

Real Gross National Product in the industrialised countries grew by under 3 per cent last year, compared with 5 per cent in 1976. This meant that the

tributed, rate of expansion has been the most clearly identifiable problem of the past two years, explaining much of the payments imbalances within the industrialised world and the resulting currency instability. All this is against the background of a continuing large surplus for the oil-producer countries (OPEC) taken as a whole.

Even more significant has been the fact that the U.S. has accounted for a large part of what expansion has occurred — growing by 5 per cent in 1977. At the same time growth in Europe has been very slow — barely 2 per cent in real terms in 1977. This was partly because stabilisation programmes in Britain, Italy and France acted as a check, as intended, on expansion while the current accounts of these countries moved towards balance. But there was also slower growth in 1977 in surplus countries such as West Germany.

This led to a worsening distribution of current account balances among the industrial countries, with the U.S. current account deficit jumping from \$1.4bn. to just over \$30bn. Although a large part of the increase reflected higher oil imports, the surplus of the OPEC countries fell by a few billion dollars. It was increasingly concentrated on a small number of countries with a low capacity to import, notably Saudi Arabia and some of the Gulf States. Several of the other countries with large populations moved into deficit and have become net borrowers.

The rise in the U.S. deficit was mainly matched by a rise in the Japanese surplus from \$9.7bn. to \$11bn. while the German and Swiss surpluses remained high. As Dr. Johannes Witteveen, the retiring managing director of the IMF, recently remarked, "the cause of equilibrium among industrial countries would have been Swiss franc. The result has

been growing pressure on the early months of this year it looked unlikely that the measures taken in autumn 1977 would be sufficient to set off a self-sustaining growth process. Investment was still sluggish in most countries and savings generally remained high, so limiting the revival in consumer demand.

There have, for example, been trade talks between Europe and the U.S., and Japan, to curb the latter's exports, though the rise in the Yen may have an effect. There is also a growing recognition of the long-term structural nature of the Japanese current account surplus. Consequently more attention is being devoted to ways in which Japanese capital can be invested on a long-term basis overseas, possibly via multilateral aid organisations.

The current account position of some of the previously "convalescent" European economies has improved in the past 18 months. But the continuing uneven distribution of balances among industrialised countries has created the danger of currency instability and the possible adoption by weaker countries of restrictive trade practices or deflationary policies.

The currency instability has been all too apparent in the past year, with the dollar falling sharply against the Deutschmark, Japanese yen and Swiss franc. The result has

been growing pressure on the early months of this year it looked unlikely that the measures taken in autumn 1977 would be sufficient to set off a self-sustaining growth process. Investment was still sluggish in most countries and savings generally remained high, so limiting the revival in consumer demand.

Consequently at the IMF interim committee meeting at the end of last month Dr. Witteveen presented a gloomy view of the outlook for the world economy unless concerted action was taken. His note, based on IMF staff work, showed real world Gross National Product growing by 4 per cent this year compared with less than 3 per cent in 1977, with world trade expanding by only 5 per cent in both years, well below its long-term rate of increase trend.

Dr. Witteveen noted that outside the U.S. the rate of growth should be generally higher this year than in 1977, though any slight acceleration may be insufficient to reduce unemployment. The gap between actual and potential output in manufacturing has continued to be large. In the six major industrial countries outside the U.S., the average gap is about 13 per cent, (ranging up to 20 per cent in Japan), compared with roughly 2 per cent in the two decades up to 1974. Resource utilisation in the U.S., manufacturing sector is only about 5 per cent short of potential with

Reluctance

In West Germany there has been a reluctance to introduce any more than a modest stimulus to the economy, partly because of fears about the impact of larger reflation on the rate of price of inflation. Restrictions on public sector borrowing and the high savings ratio are also cited as reasons why larger packages either cannot be introduced or will not work in the way suggested by outsiders.

The result, both of this record and attitudes, is that by the per cent short of potential with

CONTINUED ON NEXT PAGE

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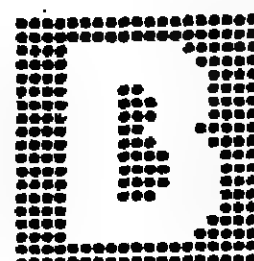


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OIL FUNDS

WORLD BANKING II

Exporters' surpluses thinned down

THE OIL-exporting countries, whose multiplied revenues have had a major impact on the world economy and banking system in the past 4½ years, are now facing the greatest squeeze on their earnings since the petroleum price was quadrupled at the start of 1974.

Estimates of their surpluses, often known as petrodollars or petromoney, have been steadily

scaled down, while still remaining large, in response to recent price and economic trends. Compared with figures of some \$37bn in 1976 and \$34bn in 1977, the total amount of revenue remaining to the Organisation of Petroleum Exporting Countries (OPEC) group, after all costs, import boom got under way of the OPEC States—

This will be the lowest figure since the oil price soared, with dramatic consequences for the international economic and monetary system, and will be less than half the \$37bn surplus earned in 1974 before the OPEC group, after all costs, import boom got under way of the OPEC States—

money by more than 25 per cent since 1974. Even \$25bn, however, is still a very large sum compared with a very large sum compared with what the oil-producing nations were earning before the steep price rise in early 1974. It will raise the total external assets of the OPEC States—

and Venezuela—at the end of 1976 to around \$180bn, much of it in bank deposits of shorter or long term and a great deal of it, perhaps 70 per cent, in dollars in the Euro-currency markets and the U.S. At the end of 1972, before the oil price took off and transferred major amounts of wealth to the oil States, the comparable holding was only \$134bn.

In any calculation of likely oil surpluses, the price of the commodity plays a large part. Pressures on the price in the context of a sluggish world economy and a glut of supplies, are now strong and are likely to be felt for many months to come. This is despite the expected OPEC action to cut back production by 20 per cent in the hope of removing excess supply and eventually firming up the price.

After the quintupling of the oil price level in the three years after 1973, last year saw a more open rift on policy within OPEC. Most producer nations brought in a 10 per cent price increase early in 1977, with a view to adding 5 per cent more in mid-1977.

But Saudi Arabia, much the largest producer, and the United Arab Emirates, both with relatively small populations and rich reserves, put their prices up by only 5 per cent.

By mid-year, when price resistance among consumers and slack demand induced by the worldwide recession—which was itself in large measure due to dearer oil—was plainly evident, Saudi Arabia and the UAE brought their prices into line with those of the others, eliminating the two-tier situation. The planned further 5 per cent increase was, however, forgone, and since then Saudi Arabia has taken the lead in pointing out to its partners the realities of the situation and the inhospitable environment for any further price rise yet.

Sources

Against the background of market glut and of growing competition from such new sources of oil as the North Sea, Alaska and Mexico to the traditional producers, the OPEC nations deferred a decision to raise prices at the end of 1977 and at their recent conference at Taif in Saudi Arabia formed a new committee to consider the group's longer-term price strategy. Reports last week suggested that OPEC was now cutting production back to 26m barrels per day (bpd), from almost 29m bpd in March and would carry through a 20 per cent reduction in the hope that this could create a better climate for higher prices next year.

Recent tougher action by the U.S. to relieve pressure on its currency has somewhat mitigated another OPEC anxiety—

that the decline in the dollar was steadily eroding the value of the group's revenues and surpluses, all geared largely to the dollar. The falling purchasing power of the dollar was one of the major factors behind recent pressure by some OPEC members for higher prices or for the link of the price they received to a "basket of currencies." While Saudi Arabia's Crown Prince Fahd has lately reiterated the Kingdom's confidence in the dollar and said that it did not wish to switch to payment in any other currency, there is little doubt that Saudi concern about the dollar's value and the need to sustain it was conveyed to the U.S. earlier this year.

Stiffer

Now, the stiffer monetary policy of Mr. G. William Miller, the new Federal Reserve Board chairman, the reduction in prospective U.S. tax cuts and the American plan to sell gold, have combined to give the dollar a better tone in world markets. Its depreciation against other currencies since late-1971 is only around 5 per cent compared with almost 8 per cent a few weeks ago. But inflation has meant that its purchasing power is down some 18 per cent altogether since 1976.

One trend which has eaten steadily into the OPEC revenues has been the increase in the oil States' imports, both for their development programmes and for greater consumption. The whole OPEC group's imports rose from only \$20bn in 1973 to \$34bn in 1974, \$67bn in 1976, and \$85bn in 1977, and the figure could well reach around \$100bn this year. In addition, spending on overseas services—construction work, tourism, and so forth—has also been rising sharply.

The overall net surplus of the whole group is also tending to be limited by the borrowings of some OPEC nations, such as Iran and Venezuela.

Even, however, if the OPEC countries have only some \$25bn of surpluses to deploy this year, the sum will still be a major one in the world financial scene. As hitherto, the bulk of it is likely to belong to the four Gulf region States, Saudi Arabia, Kuwait, the UAE, and Qatar.

Coming on top of the large surpluses already accumulated, the disposition of this year's surplus is bound again to be a matter of much interest to world markets.

It is probably true to say that the huge surpluses of petromoney which have accrued in the last few years have been disposed of with care and caution and that a great part of the money is still held in bank deposits and other relatively short-term forms.

Translation of the very large

short-term holdings into long-term investments, both for development at home and in enduring overseas holdings, is one of the problems which has faced the oil-producing States since 1974 and one which has not yet been solved to more than a very limited extent. Considerable aid has been channelled to the poorer countries, particularly in the Arab world, but the imbalance between the needs of the poorer Third World, and the still large surpluses of oil producers—a major part still held in short-term balances—remains a feature of the world scene which poses questions for the future.

Meanwhile there is no reason to think that the rather smaller, but still large, net OPEC surpluses becoming available for investment this year will be used in a less cautious way than in recent years. The pattern is likely to remain one of a sizeable amount of cash being held in bank deposits, but with a gradually rising quantity of bonds, mostly of U.S. Government and top American and certain other international companies, absorbing an increasing part of the money.

So far as Saudi Arabia is concerned, short-term holdings in a range of some 54 banks in several leading countries (known as the "magic circle") are likely to take much of the accruing cash, a large part of which will be held in dollar or Eurocurrency form.

Equities

Only minimal quantities of Saudi surpluses have so far found their ways into equities, though Kuwait, with a long-established system for investment in the West, partly through the Kuwait Investment Office in London, has more strongly favoured investment in shares and has several hundred million pounds invested in UK equities and property. Last year it disclosed a range of limited stakes in big UK companies, including General Accident, Guardian Royal Exchange Assurance, and Trafalgar House, when interests of 5 per cent or more in UK companies' equity had to be revealed.

Iran has also shown some taste for direct investments in the West, as in its purchases of holdings in Krupp in West Germany.

Of the \$33bn net surplus which the Bank of England estimates that OPEC countries earned last year, \$12.6bn is believed as having gone into bank deposits—as much as \$8.1bn of it outside the U.S. and UK domestic dollar and sterling markets respectively. Much of this was in the Euro-markets generally, so that a sizeable proportion of it also was denominated in dollars.

Concern towards the end of last year about the dollar's value found some reflection in an actual fall of \$800m. in 1977 in OPEC holdings of U.S. Treasury bills, though there was also a slight rise in the oil nations' holdings of rather longer-term U.S. bonds and notes, by the sizeable figure of \$4.3bn.

Another trend which has been quietly taking place has been the channelling of rather more of the OPEC cash, into private placements with leading companies and borrowing institutions, particularly in the U.S. but also to some extent in other countries. The Saudi International Bank in London, half of whose capital is held by the Saudi Arabian Monetary Agency, and whose business is general banking, recently mentioned that the investment of excess funds by the Arabian Gulf States, particularly Saudi Arabia, through the medium of private placements was increasing rapidly and could be expected to grow further.

Issues

Purchases of international bond issues by OPEC investors, though difficult to identify, also appear to have been considerable.

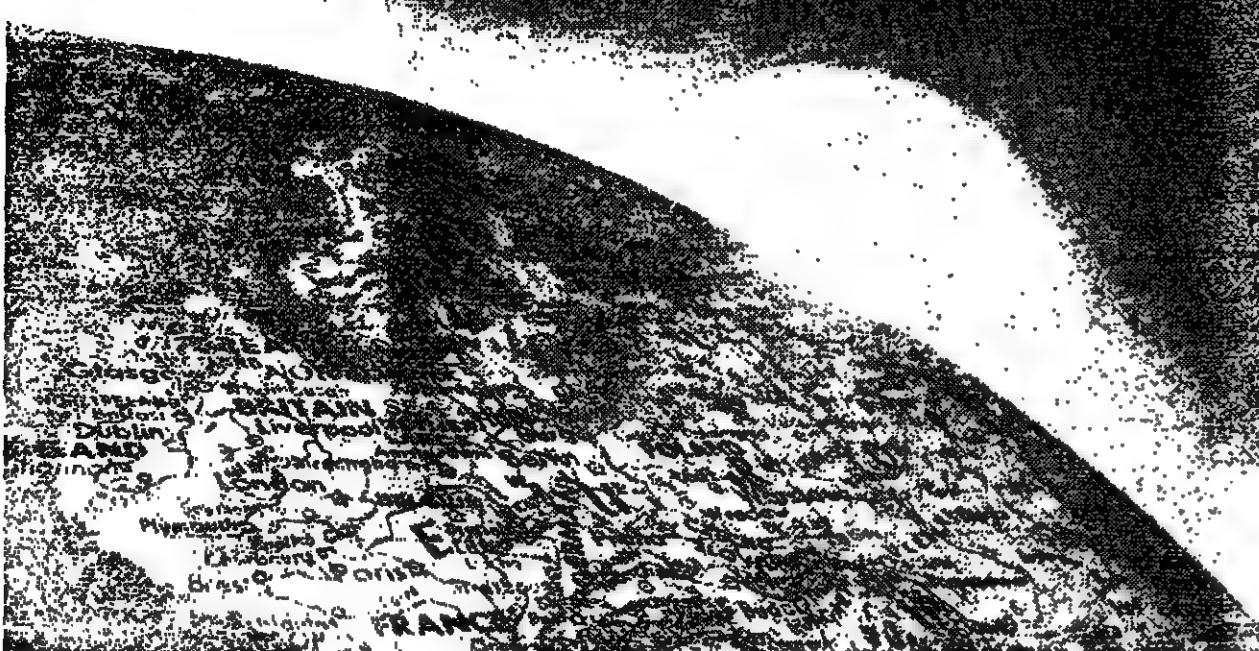
These trends towards some longer-term investment reflect a certain shift towards more settled investment outlets for the OPEC surpluses. And although they account for only a limited part of the petromoney, there is no doubt that all the surpluses have been deployed in a generally careful and conservative way and that the world banking system has absorbed them relatively comfortably. They have, in part, helped to feed the recovery of the Euro-markets in the past two-and-a-half years, after the shocks, including the collapse of the Herstatt bank, in 1974. Certainly there is now much less very short-term cash washing around the banking system, particularly in the U.S., than in 1974.

Another undeniable fact is that the investment of petromoney is, despite the past year's gyrations of the U.S. currency, still largely tied to the dollar, the currency in which oil revenues are essentially paid and which, by reason of the realities of the world monetary system, is the inevitable outlet for much of the holdings.

Mr. Anthony Solomon, the U.S. Under-Secretary for Monetary Affairs, recently suggested that some 70 per cent of all the accumulated OPEC surpluses was in dollar instruments, with about 25 per cent in the U.S. markets (as distinct from the Euro-markets).

Margaret Reid

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Low key

CONTINUED FROM PREVIOUS PAGE

a further decline in the margin expected during the next year. A more optimistic view has been presented by U.S. officials. They have highlighted the modest pick-up in economic growth in Germany and Japan, an improved economic outlook for the less developed countries, the likelihood of a \$10bn drop in the surplus of the OPEC countries, a good chance that the Japanese surplus should move down later this year and expectations that the U.S. current account deficit should decline in the second half of this year.

However, Mr. van Lennep told the IMF interim committee that the provisional assessment by the OECD was likely to be less encouraging than that forecast by the IMF, with more payments disequilibrium and growth rates in industrial countries tailing off in the first half of next year.

Promoting

A change in strategy towards promoting growth was presented to the IMF by Dr. Witteveen, with recommended rates of expansion for the major industrial nations. He outlined a pattern of differing rates of expansion in order to promote a substantial adjustment to current account balances. For example, the U.S. growth rate was projected to decline from an estimated 4½ per cent this year to 4 per cent, in 1979, partially offset by an acceleration from 3.7 to 7.5 per cent in Japan and from 3.1 to 4.5 per cent in Germany. An increase in the growth rates of the U.K.—up from 2.9 to 3.5 per cent—and of Italy and France was also proposed.

Dr. Witteveen estimated that after allowing for other influences, such as the potential fall in the OPEC surplus, the U.S. current account deficit should fall from an estimated \$17.1bn this year to \$8.1bn. In 1979, Japan's surplus should shrink from \$11.2bn to \$2.2bn, while Germany's estimated surplus of \$7.1bn, this year should turn into a deficit of \$100m. There should be improvements in the current account balances of the other major European economies with Britain's surplus rising from \$1.9bn to \$4.5bn.

The problem has been, that while this may seem an attractive outline to many countries there is not yet any sign that Germany and Japan, the two key countries, will be willing to take the necessary action. At the same time there is also disagreement about the various proposals put forward for stabilising currency markets—particularly about Chancellor Schmidt's suggestions for a closer alignment of currencies within the EEC.

Relations between the U.S. and Germany have been improving in recent weeks compared with earlier in the year. But there is still little evidence of sufficient progress can be made to allow agreement on much more than a vague formula of good intentions. This may be useful in a negative sense of preventing a more rapid slide towards protection, encouraging at least some action to boost growth rates in the surplus countries. It is also open to doubt what effect such stimulus would have. Pressures for action to stabilise currencies may have eased, however, since there are already signs of a recovery in the dollar.

Patterns of instability

INTEREST RATES have been unstable throughout the year, with fluctuations in the currency markets exerting a dominating influence on comparative levels. The dollar weakened steadily over the past nine months—only staging a recovery in April, when it bounced back against all the major currencies. The corresponding strength of the leading Continental currencies and the Japanese yen have been reflected in contrary movements in the level of interest rates.

In 1977 the pressure on the dollar produced sharp rises in the value of all the traditionally strong currencies, the Swiss franc and the yen in particular and the West German D-Mark. At the same time there was a remarkable transformation in the position of sterling, which has been usually one of the weaker currencies. This was thanks to a restoration of international confidence following the negotiation of the International Monetary Fund loan and the improvement in the balance of payments as North Sea oil began to make an impact.

The first few months of this year have seen significant changes in the picture. The French franc, which had been very badly hit by fears of a Left-wing victory in the spring elections, recovered sharply when the Right held its position. In a few days the day-to-day money rate fell from 10.5 per cent. to 9 per cent. and then to 8.5 per cent.

Earlier official concern at the long decline of the U.S. dollar now appears to have been reflected in positive steps—and in April the dollar, helped by the psychological boost of gold sales, strengthened.

Mr. William Miller, the new chairman of the Federal Reserve Board, took a hard line against inflation in his first appearance before the Senate Banking Committee. The Reserve's discount rate moved up to its highest level for three years.

In Britain too the spring has proved a watershed. The earlier euphoria about the country's economic prospects disappeared after the gloomy January trade figures were released and the realisation strengthened that the balance of payments had not been eliminated as a constraint. Since then the Minimum Lending Rate (MLR) has moved up-

Deficit

wards from 5 per cent to 9 per cent.

The currency movements and the unrest which has persisted in the exchange markets for the past nine months have brought substantial problems for countries both on the receiving and losing end of the speculative inflows and outflows. Efforts to stem the pressure have included at times heavy official intervention in the exchange markets by the central banks with the stronger currencies and various measures to discourage inflows from abroad. The Swiss in particular introduced a punitive negative interest rate on all new money brought in.

In the latter half of last year the difficulties created by the corresponding inflows as the U.S. deficit widened further made for regular efforts by politicians and central bankers to talk up the dollar by emphasising that its decline had gone too far and by underlining the effects it was having on their domestic economies. It also brought, notably in Britain but also in other countries, a decline in the general level of short-term interest rates—a movement in contrast to the increase in the U.S.

In the past couple of months the picture has somewhat changed with the rise of the dollar from mid-April. However, the underlying reason for the decline has not altered. This is the sharp increase in the U.S. trade deficit. Last year it rose to a record \$26.72bn, 4½ times its level in the previous year. The total has tended to increase over the first few months of 1978. A large contribution to the rise has been made by the sharply increased level of oil imports, and the problems of the U.S. administration in gaining acceptance for its energy policy have contributed to international uncertainty.

The attitude of the U.S. authorities towards the dollar and their apparent indifference for most of last year to the effects of its decline on other countries played a key role in the exchange market movements. Initially the U.S. was inclined to regard the fall in the dollar as a useful contribu-

tion to correcting the payments imbalances. It was felt that these had arisen partly because the U.S. economy was growing more rapidly than those of other countries which had not followed the U.S. example in trying to sustain world growth.

After June there was growing pressure on the dollar and the dangers of this attitude became increasingly apparent. The Administration took the view that the dollar had to be brought down and the decline in the value of the dollar gathered pace later in the year there was a growing chorus of complaint from countries with stronger currencies, particularly Switzerland and West Germany.

The West Germans especially found their export-orientated industries complaining about the effect of the rise in the D-Mark on their ability to compete in world markets. They brought growing pressure on the U.S. through a series of urgent public and private warnings of their responsibilities for ensuring greater stability. The U.S. Administration responded with calls for the West Germans to aim for greater growth and thereby take their share of the responsibility for generating international recovery. Up to now the Germans have resisted all attempts to draw them into such a policy.

The U.S. gradually changed its attitude to the dollar's decline, partially at least because of its failure to influence West German policy. Towards the end of the year it was beginning to argue that the decline in the dollar had gone too far to reflect the underlying economic realities. It was only in early January, however, that positive steps were taken to arrest the decline through the decision to undertake a more active intervention policy, backed by the weight of the international central bank swap arrangements and with the supplementary support of a new agreement with West Germany.

These moves began to bear fruit in April as the dollar recovered against all the major currencies. This upwards movement was reinforced by the announcement on April 19 that the authorities would sell 1.8m oz of gold at monthly auctions over the next six months. At about the same

time the Administration took this second occasion Sweden dropped out entirely. It also forced Belgium to raise its discount rate twice during December. Interest rates were raised as the Fed announced less room for growth in both M1 and M2 from now on. The discount rate was raised this month by 0.5 per cent to 7 per cent, the highest since early 1975 when it stood at 7.25 per cent.

The recent recovery of the dollar has taken the pressure off the D-Mark for the time being. One of the major problems that the D-Mark's strength caused over the year concerned the European "snake" joint floating arrangements. The Scandinavian currencies were twice forced to devalue, in April last year and again in August. On

in MLR was the inflows caused by the dollar's fall, combined with new confidence about the UK economy's prospects. In July the Bank of England switched to trying to hold sterling steady against a basket of currencies rather than the dollar—without managing to stem the inflows.

With MLR down at 5 per cent, Britain was forced to abandon the policy of holding the rate down and allowed it to float without intervention. In January the exchange rate climbed to within a whisker of £2 before worries about the balance of trade and growth in the money supply caused a turnaround in sentiment and sterling went into a slow but steady decline. To support the currency the Chancellor announced a 1 per cent increase in MLR to 7.5 per cent in his Budget. This proved insufficient and within a month the rate was raised, first to 8.75 and then 9 per cent.

The main reason for the fall

who has argued that its internal currency problems are a major reason why the Community has failed to match the recent economic growth rates of the U.S. and Japan. It has also been hostile to the U.S. and could favourably received by most of the smaller EEC countries and by Mr. Roy Jenkins, President of the European Commission, who has been urging governments since last autumn to revive plans for a monetary union.

It is still not entirely clear what prompted Herr Schmidt to adopt a new tack, reversing a decidedly negative attitude which Bonn has displayed in the past towards EEC attempts to promote closer monetary integration. The most widely held view is that he has grown increasingly impatient with the Carter Administration's refusal to recognise the problems caused in the rest of the world by the decline of the dollar or to take any effective remedial action. As concern about competitive consequences for German exports mounted, he grew tired of waiting for Washington to act and began examining seriously what the EEC could do on its own.

Not everyone is convinced, however, that this is the full explanation. The British Government's response to his ideas has been decidedly cool, and it has made little effort to disguise its immediate suspicion that they could turn out to be little more than a diversionary manoeuvre.

The UK also doubts about the value of an independent EEC initiative in tackling currency instability. It believes that the root of the problem lies in the current imbalance in the triangular relationship between the dollar, the D-Mark and the Yen. In the British view the only durable solution is likely to lie in a comprehensive approach which would deal directly with the dollar's reserve currency role. This analysis militates in favour of a broader, multilateral effort, concentrated principally on discussions within the International Monetary Fund.

As is often the case in matters where increased EEC integration is concerned, Britain's view is also tinged by considerations of national sovereignty. There remains a strong aversion at senior levels of the UK Treasury to any scheme which would effectively transfer a significant measure of national control over monetary and exchange rate policies to a central body whose precise form and functions have in any case still to be defined.

Giscard d'Estaing of France, Chancellor Schmidt tried to

While the differences between the British and German positions appear to have been narrowed, it is not yet clear whether there is sufficient agreement to allow useful work to begin at a more technical level on the details of an EEC currency scheme. In any case the timetable for further consultations, and the form which these should take, remain uncertain and rather confused.

Hopes

Immediately after the Copenhagen meeting there had been hopes in some quarters that the EEC could draw up the main elements of a currency scheme in time to present it as part of its contribution to a broad package of economic measures which, it is hoped, will be endorsed by the seven-nation Western Summit to be held in mid-July. But with less than two months to go it looks increasingly unlikely that this deadline can be met.

Part of the problem is that the heads of government conducted their discussions in Copenhagen amid unusually strict secrecy and failed to reach any firm conclusions on how next to proceed. Even their Finance Ministers encountered some difficulty in discovering exactly what went on and have been unable as a result to discuss the matter among themselves in any depth at EEC Council meetings. The only EEC forums in which ideas have been exchanged at all fully on the issue since Copenhagen have been the committees of monetary officials and central bank governors, which are technically highly qualified but lack a clear political mandate to shape their deliberations.

Meanwhile the dollar has recovered strongly in response to a more restrictive monetary stance by the U.S. authorities, as well as to the American decision to resume gold sales. If this tendency continues it will relieve a number of the immediate pressures on the world monetary system and alleviate some of West Germany's concern about its export competitiveness.

Guy de Jonquieres
Common Market Correspondent

EUROPEAN MONETARY UNION

Signs of fresh initiatives

ARE EUROPEAN governments such a scheme through a substantial transfer of Germany's reserves.

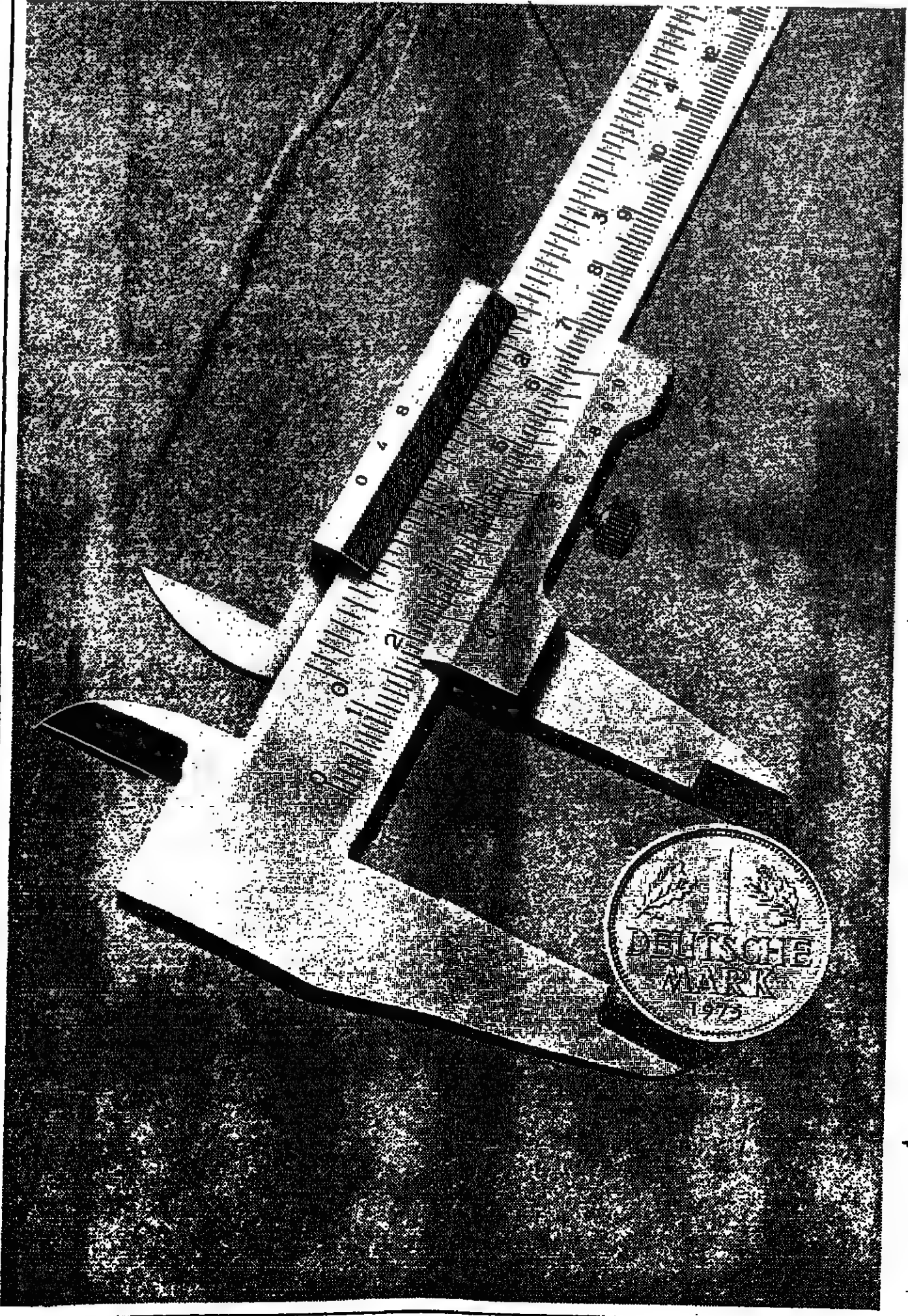
What Herr Schmidt appears to have in mind is the creation of an EEC currency "zone," in which newly defined links between national currencies would enable the Community better to withstand the disruptive effects of inflows of "hot" money from other parts of the world. The plan would involve setting fluctuation margins for currencies like sterling and the French franc, which at present float freely, and backing them with foreign exchange market intervention by a new central reserve authority.

Herr Schmidt clearly believes it important that any new scheme should leave intact what remains of the "snake," the joint floating arrangement which includes Germany, Benelux countries, Denmark and Norway. Other EEC coun-

tries would not be required to observe the rigorous disciplines which the "snake" imposes on its members, and a "crawling peg" mechanism could be devised to permit limited currency depreciation by those countries suffering from above-average inflation rates.

The links between the participants would be defined not in terms of each others' currencies but of the European Unit of Account, which is based on a weighted "basket" of all EEC currencies and is therefore less prone to violent fluctuations. The aim would be to give the Unit of Account, which is at present little more than a technical accounting unit, an expanded role as a medium of settlement between EEC central banks.

Herr Schmidt's thinking on these questions appears to be close to that of President Giscard d'Estaing of France.



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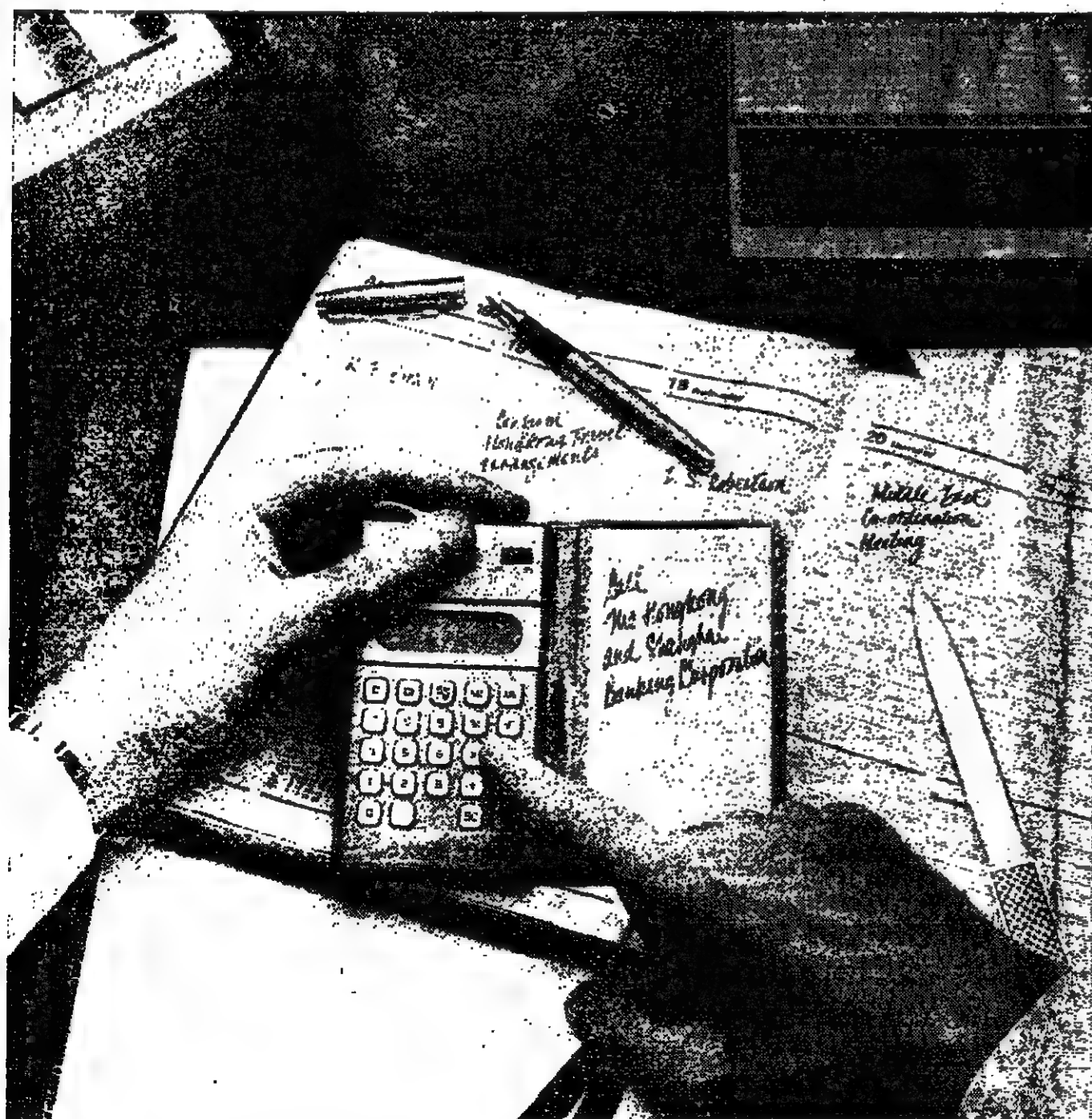
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REGULATIONS

WORLD BANKING IV

Tighter control in the offing

The costs of the fringe bank crisis in Britain in 1973-74 cannot yet be counted in full, and its aftermath in the shape of the lifeboat support group has turned out to last much longer than was originally expected. In its recent evidence to the Wilson Committee on the financial institutions, however, the Bank of England made perfectly clear its firm belief that the damage would have been far greater if the decision to launch the lifeboat had not been made.

Whatever the ultimate losses may turn out to be, the Bank argued, "they will be far less than those that would have been sustained by the support group and the economy at large had the support operations not been undertaken." The action which was taken by the Bank together with the big clearing banks to shore up the system was needed in order to avoid "a widening circle of collapse through the contagion of fear."

The Bank's paper also made it clear how much the crisis, which had begun as a liquidity problem in a few of the secondary deposit-taking institutions in the UK, spread in the later stages to become international. The increasing malaise in the banking world extended to the Continent and to the U.S. during the course of 1974. In June of that year, "the international financial community, already aware of trouble at Franklin National Bank in New York, was shaken by the sudden closure of Bankhaus Herstatt as a result of massive foreign exchange losses."

At that stage, the Bank pointed out, there had always been warning signs. A number of small German private banks had failed earlier in the year, and the Westdeutsche Landesbank and Union Bank of Switzerland had suffered substantial foreign exchange losses. Following these events, international bankers reacted in a way rather similar to the response of the UK institutions at the end of 1973, by withdrawing or sharply reducing their lending lines to smaller banks. In July a further problem arose when the Israeli Bank of Tel Aviv failed, together with its wholly-owned London subsidiary. And in September Lloyds Bank had to announce that it had lost £33m. as a result of unauthorised foreign exchange dealings in its Lugano branch.

Going back over these traumatic events serves as a sharp reminder of just how close the international banking community as well as the domestic banks in the UK came to suffering a total crisis of confidence. It also underlines the weaknesses which existed in the arrangements then in force for supervising the banking system. In the UK there was a special problem in the gaps in the regulatory mechanism which allowed the rapid growth of the secondary banks.

These initially grew up in the period before 1971 when the ability of the big established banks to lend to their customers was severely limited by the official credit controls. When the clearing banks were freed to expand their lending with the introduction of the policy of competition and credit control, cut down the volume of the result would be to lead to a gradual shrinkage of the fringe. The fact that this did not happen was mainly because of the particular economic circumstances of the time, with an easy monetary policy designed to encourage growth and with the property market boom providing a tempting outlet for

funds. At the same time the confusion which existed in the public mind over the various types of banking recognition enabled a number of institutions which were regarded as banks only for the very limited purposes of section 123 of the 1967 Companies Act, and were not subject to the supervision of the Bank, to give the impression that they were genuine banking organisations.

Much has been done since then to clear up the problems exposed by the fringe banking crisis in the UK, and the experience of that period have led to a tightening of controls and regulation not only in the UK but in nearly every other country.

The next major step will come when the Government gets around to putting into effect the planned legislation on the supervision of deposit-taking institutions in the UK. The outline of the new rules was first set out in a White Paper as long ago as August 1976, but the combination of the need to discuss the details of the new arrangements with the banking industry and the shortage of Parliamentary time has produced some delays in bringing the plan to fruition.

At the end of last year Mr. Denis Davies, Minister of State at the Treasury, indicated that legislation would be introduced as soon as Parliamentary time permitted, and since then further progress has been made in sorting out some of the details, particularly in relation to the proposals to set up a deposit protection fund.

This has been by far the most controversial element of the proposals. The authorities have consistently maintained that a fund to ensure the safety of small depositors was an essential element in the improved regulatory system. The clearing banks have argued throughout that they do not

themselves need this kind of protection and fail to see why they should contribute the bulk of a fund which would effectively support their smaller competitors.

It is plain, however, that the fund would fall to carry the necessary credibility unless the clearers contributed. And it has become clear that the pattern of the fund is likely to include a number of features. It would insure deposits from any one depositor in a bank or deposit-taking institution up to the first £10,000, though in order to keep some incentive for depositors to exercise some judgment in placing their money the cover would extend to only 75 per cent of their deposit.

Ceiling

All banks and deposit-taking institutions would contribute to the fund, which is expected to total some £5-£6m, with contributions in relation to the size of total deposits but with a ceiling of £300,000 on the first call—which would have the effect of limiting the proportionate participation of the big banks.

Other than this point, the proposals are essentially non-controversial, with the exception of the worries which have been expressed by the finance houses over the possible impact on their business of no longer being able to call themselves banks. But the effect of the new legislation will nevertheless represent a major break-through for the UK. It will confirm the overall responsibility of the Bank for the supervision of all banks and deposit-taking institutions, thus building into the legislation a principle which avoids the divided responsibilities which contribute to the fringe bank problem.

It will make a clear distinction between those institutions which are regarded as banks in

the full sense and those which are only deposit-taking institutions, and will limit strictly the use of the name bank and its derivatives. And it will for the first time set up in the UK a formal system of licensing for all deposit-taking institutions.

As well as serving as a response to the recent problems, the new legislation will also fulfil one of the obligations of the UK under its membership of the European Community. Efforts to bring together the various arrangements for banking supervision within the EEC have had a rather chequered path, with the initial dirigiste approach attracting a lot of criticism. This has now been replaced by a different method of dealing with the problem which attempts to do no more than to set a framework within which each country can establish its own supervisory system according to its individual preferences.

The aim is to co-ordinate the systems of banking supervision only to the minimum extent needed to allow free competition for business throughout the Community, requiring certain elements such as licensing, liquidity and solvency control and the provision of information but avoiding the earlier specific and complex instructions. Perhaps most important, the new concept provides, in line with the general developments of the past few years, for co-operation between the authorities of the various countries.

Within this framework, therefore, there will be scope both for those authorities which, as in some Continental countries, prefer to operate a rigid system of control ratios and for those such as the Bank of England which want to retain as much as possible of their traditional flexibility in dealing with the banks.

Michael Blanden

GOLD

The market and the price

THE PRICE of gold has stood up in the open market remarkably well recently in the face of events which would normally be expected to have a substantial depressing effect. These have included first the news in April that as part of its measures to help stabilise the dollar in the exchange markets the U.S. Administration intend to renew sales of the metal from its official stocks. This move was followed quickly by the announcement that India intended to undertake official gold sales, on a larger scale than the introduction of the policy of competition and credit control, cut down the volume of the result would be to lead to a gradual shrinkage of the fringe. The fact that this did not happen was mainly because of the particular economic circumstances of the time, with an easy monetary policy designed to encourage growth and with the property market boom providing a tempting outlet for

investments—would be sufficient to absorb the extra supply. The price, which had been dropped to around \$168 an ounce in the immediate response, picked up to around \$174 by early this month.

This was still some way from the year's peak level of \$189 an ounce, recorded in early March, a price not so far short of the all-time records reached in the euphoric conditions which ruled at the end of 1974 when the market was looking forward to substantial U.S. buying. The reaction suggests that the market has now learned to live with the regular sales of gold by the International Monetary Fund and other official sources and has reached a state of reasonable stability.

The recent events also underline, however, the special character of the gold market. The U.S. gold sales again highlight the determination of that country to move towards the new rules of

complete demonstration of the metal and to create a situation in which it can be dealt in as a commodity just like any other. Further important official moves have been made in that direction this year.

The changes in the International Monetary Fund articles of association agreed in 1975 were finally ratified. The two main features of the amendments were to abolish the official price—artificially low at \$35 an ounce and thus purely theoretical—and to free central banks to buy and sell in the open market. Previously, under an interim arrangement which ended in January, central banks had agreed to a restriction which meant that they could sell but not buy in the market.

The U.S. Administration was satisfied that though some European countries remained more wedded to gold than they would like, the central banks country to move towards the new rules of

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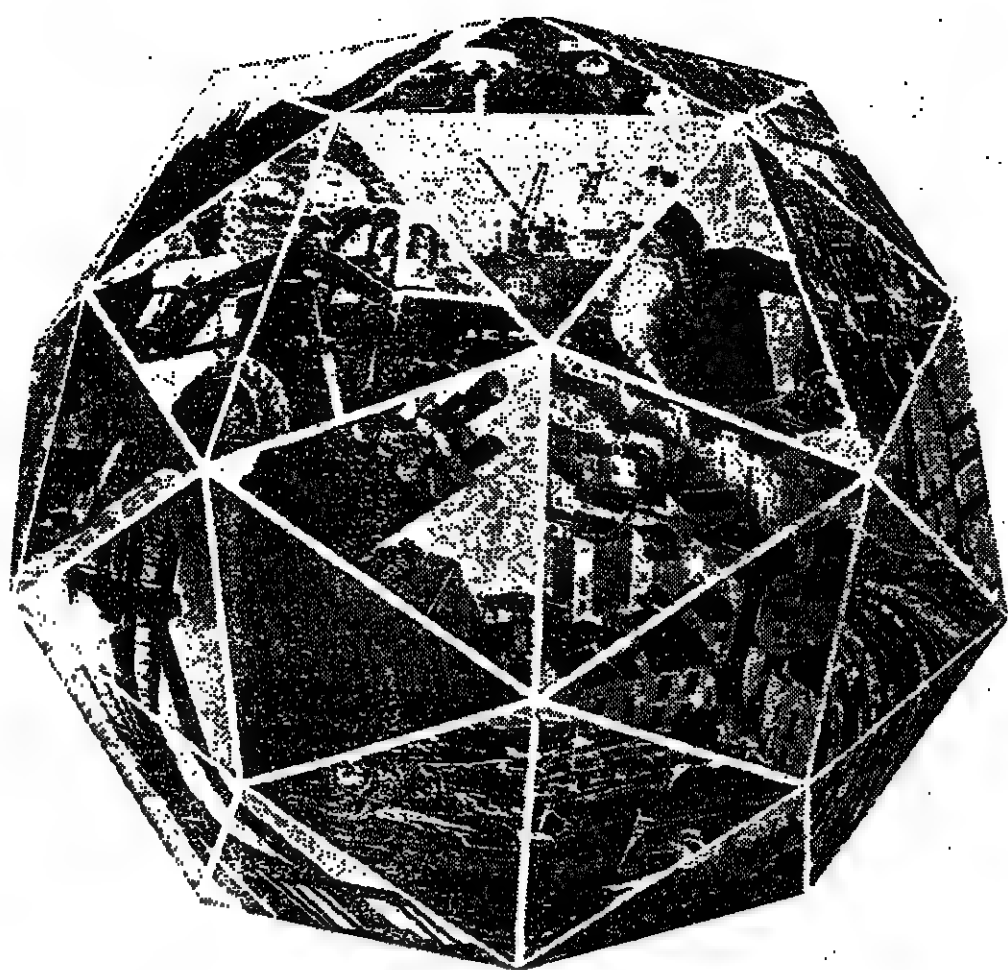
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London remains a powerful magnet

JUDGING BY the steady stream of foreign banks that continue to beat a path to London, the City's role as the world's major international financial centre continues to be a powerful magnet.

Last year a new foreign bank opened roughly once every fortnight. According to The Banker's annual review of foreign banks, 28 foreign banks hung up their nameplates in the City last year, plus four new consortium banks. Among the newcomers were some very well known names such as Holland's Amro Bank and West Germany's Bayerische Vereinsbank, plus some not so well known names such as Turkey's Yapi Ve Kredi Bankasi and South Korea's Cho-Hyung Bank. At the time of its last roll-call The Banker counted 285 foreign banks directly represented in the City, and another 73 banks represented through some 37 consortium banks. The number of banks in the City has more than tripled in the last decade, and roughly twice as many foreign banks are now represented to London as in New York, its major rival.

London is still the dominant Eurocurrency centre, transacting just over a third of the business, and this clearly remains one of its major attractions for a foreign bank. As a group they control \$98bn of foreign currency deposits in London—four fifths of the total. The London branches of U.S. banks alone, have foreign currency deposits of \$42.4bn, which is roughly eight times the size of the London clearing banks' foreign currency books.

The importance of London as a major banking centre is underlined by the fact that all but 13 of the world's top 100 banks are directly represented in the City. In addition, eight of the 13 absentees do have a presence in London through a shareholding in a consortium bank. According to The Banker over 23,000 people are employed by foreign banks, and they pay a considerable amount of tax and rates. In its recent evidence to the Wilson Committee, the Committee of London Clearing Banks reckoned that the invisible earnings of the London-based international banking community is about \$900m. per annum.

While the City's attractions as an international financial centre have been well rehearsed, it is generally accepted that by normal banking criteria, the City is hopelessly over-banked. Competition for new business is exceptionally aggressive, as the London clearing banks learnt last year. When U.K. interest rates plummeted from 15 per cent to 5 per cent during 1976-77, the big clearing banks had to face up to the fact that they were either going to lose

the accepting houses, which only managed to lead an extra \$20m., the foreign banks have to the Wilson Committee, A. R. obviously found an important maniche for themselves. In certain industries they are especially important. As a group they start... you name it, we have lent twice as much money to get it in Scotland." With \$7.5bn the U.K. chemical industry as do the London clearing banks. Citibank, for example, is probably larger than the combined operations of Royal Bank of Scotland and the Bank of Scotland, and is obviously well placed to poach UK clients from the smaller UK banks.

Although the foreign banks have increased their penetration of the domestic UK market over the last few years they are more cautious than they were. A number of them were hard hit by the UK fringe bank and property crisis, and nowadays it is very much a case of once bitten twice shy. Head offices now exert much tighter control over their London branches. For most banks their raison d'être in London is still their Eurocurrency business—this is what they are good at.

Unfortunately London's central position in this field is under attack. The city's natural advantages, such as language, climate, good staff, communications and geographical position have been well rehearsed, but

there are disadvantages such as the relatively high rate of inflation and the increasing tax burden. Business which had once come to London is now going to other centres. In Europe both Paris and Luxembourg are competitors, and although they are nowhere near as large in Eurocurrency terms, they do pose a threat.

Further down the line New York's embryonic plan to establish an offshore banking enclave could divert a significant amount of business away from London. There are still a number of bridges to be crossed before the plan is put into action, of which far and away the most difficult will be the Federal Reserve's reservations; nevertheless the plan is well advanced.

Offshore
Since 1970 the offshore business of U.S. banks booked in the Bahamas and the Cayman Islands has jumped from under \$5bn. to close to \$30bn. and this is the business which the New York authorities hope to lure back. However, the UK business (\$90bn) is also likely to be affected. If U.S. banks find that they can book their offshore loans from their head office there is less need to maintain a large and expensive duplicate operation in London.

Only time will tell whether the New York scheme will pose a threat to London's pivotal role in the Eurocurrency market, but it should not be underestimated. International banks and their staffs are very mobile, and although U.S. bankers may prefer working and living in London to New York, the balance in favour of the City could shift if personal tax rates, for example, became more onerous or the City's rate burden increases still further.

If the number of new banks opening offices is any guide the City's foreign banking community is flourishing, but there is no denying that the proportion of international business booked in London has been steadily declining over the last few years. Apart from the taxes and employment aspect, the foreign banks have played a major role in the development of the City's international reputation.

They have often introduced new ideas. The concept of medium term lending was imported by the American banks and, after some initial hesitation, adopted by the UK clearing banks for their domestic customers. Similarly, certificates of deposit and currency swaps. UK banks might rue the aggressive competition of the foreign banks but they have learned a lot from the foreigners and the City's international reputation has benefited accordingly.

William Hall

shrink—at least in terms of numbers employed—and its international role as an intermediary in sectors like Kaffir shares has tended to be lost to other centres, notably New York.

Hated
Hopes were fairly high in the City last year that with sterling beginning a new era of strength on the back of the North Sea oil boom, the investment currency regulations would be progressively abandoned, as indeed is required by Common Market principles. The hated 25 per cent surrender rule was in fact revoked last December. But with sterling again turning weak there now seems little hope of more radical concessions over the investment currency premium.

The instability of sterling has in fact constituted one of the main handicaps for the City in maintaining and increasing its role in the international financial markets. Foreigners may have seen some benefits in terms of lower operating costs, but the general uncertainty has at times caused serious loss of confidence.

In the long-term sterling has been declining as a reserve currency and as a medium for financing trade. Some 18 months ago UK banks were

CONTINUED ON NEXT PAGE

Language
In the modern era other advantages have helped the City. With the growing economic and financial power of the U.S. the English language has become commercially even more important. Geographically too, London is well placed close to other European centres, and comparatively easily accessible by air from the U.S. and the increasingly important Middle East countries. The time zone is to add some very modern vir-

MULTINATIONALS

WORLD BANKING VII

Playing on the world stage

THE NEWS of National Westminster Bank's plans to pay around \$300m to buy a majority stake in the New York-based National Bank of North America has recently underlined again the continuing growth and development of the big banks in the business of international banking. For NatWest, the deal will be the first time it has acquired an indigenous retail deposit base through ownership of a dollar bank: it will also give the group a foothold in the New York market at a time which could prove vital in view of possible developments including the creation of an offshore banking centre in New York.

The move highlights the marked changes which have been taking place in the character of international banking as an increasing number of banks have gained the experience and self-confidence to undertake extensive worldwide operations in their own right rather than relying on partnerships and relationships with other banks. A similar point is made by the large numbers of foreign banks which are queuing up to set up shop in the City of London.

It is believed that at least 30 banks currently have plans to form a London representative office, or to upgrade their present representation to a full branch operation. The rush into London is being intensified by the pressure to get a share of the international banking business at a time when many national economies remain relatively depressed as well as by the concern of the developing countries to get a foothold in the international eurocurrency markets.

Connections

It is noticeable, moreover, that many of the banks coming to London are relatively small by international standards. Only a few years ago these would have been expected to rely on correspondent relationships with other banks or on more formal connections rather than trying to go it alone.

The need for co-operation and for assistance from other banks in setting up in the international market was one of the main reasons for the fashion a few years ago for creating consortium banking operations. For many small banks the technique of establishing a joint operation with a number of other banks, usually bringing together several different countries, provided a way of gaining access to the markets on a scale which they would not have been able to undertake individually.

Even for some of the bigger banks, the co-operative type of arrangement had a number of attractions. In Britain, for example, Midland Bank, which traditionally has relied more than most on correspondent connections in providing an international service for its customers, is a strong member of the EBRU European co-operative group and participates in this organisation's extensive range of joint ventures.

Similarly, Barclays, though a major international bank in its own right with a strong inheritance of overseas banking participation in the Abcoeur European group and its various offshoots, and NatWest itself is a founder member of one of the biggest consortium groups in London, Orion Bank, along with partners including the Chase Manhattan.

Concept

At the time when it was most popular, the concept of con-

sortium banking was designed to meet a real need. Even some of the big banks, including those from the U.S. were relatively inexperienced in the new kind of banking which was developing as a result of the rapid expansion of the Eurocurrency markets, particularly in London. It was different from the type of overseas retail banking familiar to the British banks and from the experience of most banks in domestic business. Co-operation enabled banks to spread the risks and in some cases to bring in established expertise—for example, from the London merchant banks.

The environment has changed now, however, and the old debate has been revived over the rationale of consortium banking. To begin with, some of the consortium banks have not over the long run proved all that profitable an investment for their shareholders. And the shareholders are becoming increasingly reluctant to share the profits that are made with others.

Many of the shareholding banks have outgrown the need to rely on joint ventures in order to develop their international banking business. They have become quite capable of developing their international activities on their own, and the recent growth of 'world-wide' branch banking provides evidence of the trend towards building up the individual representation required.

Increasingly the shareholding banks have found themselves coming into competition with their offshoots for lending business. This trend has been increased by the growing tendency of the consortium banks themselves to move towards a greater reliance on specialised merchant banking and advisory services to provide them with fee income, in contrast with their earlier emphasis on the straightforward business of building up their medium-term loan books.

One direct result of this has been to create problems for the UK merchant banks which participated in the consortium groups. They have found that the consortia have increasingly been offering the same kind of services to potential clients; and they have found that in some cases their offshoots have outgrown their own parents. The merchant banks operate with relatively modest capital bases, and in a number of cases it has become evident that the commitment involved as a shareholder in a major con-

sortium group can no longer be justified.

Several merchant banks which had contributed their special expertise to consortium groups have been pulling out. Hambros was among the first though others, particularly the when it sold out of Western American Bank (Europe)—now further changed under the control of Bank of Tokyo—and Rothschild, Barings, Kleinwort, Benson and Charterhouse Japhet have all at various times moved out of this type of joint venture. The biggest shake-out, however, has taken place among the U.S. banks, with an increasing trend towards their either pulling out of consortium operations or taking over full control in order to develop their own in-house international merchant banking capacity.

The outstanding recent example has been provided by Chemical Bank, which bought out the other shareholders in one of London's consortium groups, London Multinational. The shareholders besides Chemical were Credit Suisse, Baring Brothers and another U.S. bank, Northern Trust of Chicago. The former consortium is now being developed as Chemical Bank International.

Two U.S. banks pulled out of Western American, one of the older and larger consortia, to leave control with Bank of Tokyo and National Bank of Detroit. And Bank of America, which in the earlier period undertook extensive joint and co-operative arrangements, has been taking particularly vigorous action to unwind its involvement and to concentrate on its own international merchant banking business.

The numbers of consortium banks in London have as a result been significantly reduced. Given the new climate of banking, it seems unlikely that there will again be a move to set up the older type of consortium group aimed simply at providing a vehicle for participating in the Eurocurrency markets. Nevertheless the consortium concept is likely to continue to have a role which may include a growing trend towards specialisation both among those groups which have been set up with a particular purpose in mind and among the more generalised consortia which are developing their own areas of specialised knowledge.

At present, like the rest of the international banking community, the consortium banks are feeling the effects of the difficult conditions in the banking markets as a high level of liquidity and competition for business bring a renewed

squeeze on profit margins on lending business. Some of the banks involved in general lending activities have found it difficult to maintain their profit levels in these circumstances—specialists in Latin America and specialists in the recently remained relatively high and stable, have been able to perform well.

Recent events have tended to underline the diversity rather than the similarity of consortium banks which may have little else in common other than being owned by the group of banking shareholders. A few of the banks, notably Orion and European Banking Company (in the EBRU fold) have developed to the point where their own size and status enables them to stand on their own in the market. They tend to dislike the consortium tag and regard their ownership as irrelevant to their day-to-day business.

In a slightly different category there are several consortium banks with shareholders which are not in the first rank of international banks, and would not be able to set up full international representation of their own. In these cases the consortium fulfils a special role. Another group of banks includes those which have a clearly specialised character, either concentrating like the International Energy Bank on a particular industry, or on a geographical region.

The two Scandinavian groups in London, for example, concentrate much of their energies on that area, and there is a number of banks which have special interests in Latin America. These include Libra Bank, European Brazilian, Euro-Latin American and International Mexican. Finally, there is a growing group of banks with Arab connections developing as the oil-rich States make their moves to play a full role in international banking, like the Saudi International group which has the Saudi Arabian Monetary Agency as 50 per cent shareholder.

There may well be further changes among the London-based consortium banks as the new pressures continue to make their effect but the general pattern seems likely to be towards the creation of increasing specialisation as established banks move to make their individual mark on the banking market, underlining the growing diversity of the consortium concept.

Michael Blanden

CITY OF LONDON

CONTINUED FROM PREVIOUS PAGE

harred from financing in sterling trade between foreign countries. To some extent the growth of London as a banking centre has been at the cost of seeing the U.S. banks increase their share of the international market (and even of the UK domestic market).

The sterling crisis of 1976 provided a severe test for the City's status. It caused great problems for financial companies in offsetting the balance sheet impact of currency gyrations (not helped by the Inland Revenue's attempt to claim tax on illusory currency gains of banks). But once again the City appears to have survived with its status largely intact.

There are of course many rivals competing for the City's disproportionate share of inter-

national financial markets. In some cases these are sunny offshore tax havens like the Bahamas, which have a certain appeal for tax reasons—not to mention their climatic attractions. On the other hand they lack the social and financial infrastructure that gives the City such a strong appeal, and so long as the UK company tax burden is kept reasonably low such havens are likely to remain only of fringe importance.

Nominally, UK corporation tax is 52 per cent, but this is not especially high compared with rates payable in some of the competitive mainland centres. In many of these, as it happens, companies are liable to extra local taxes. In any case much UK corporation tax can in practice be deferred almost indefinitely through, for instance, leasing schemes whereby the lessor becomes entitled to capital allowances.

Threat

A big threat to London's role in the Eurocurrency market would only come if the Americans took steps to take much of the vast overseas dollar holdings back within their own boundaries, as is indeed from time to time proposed. Arguably the City of London has only grown so important in this sector because the Americans have been too rigidly minded to relax their tight domestic banking regulations in an attempt to attract the footloose Eurodollar deposits.

A current proposal, with exactly this problem in mind, is to establish a monetary-free trade zone in New York (not to mention Los Angeles and Chicago) where certain international transactions would to a large extent be unrestricted and outside the tax net.

Perhaps a more immediate danger is that the weakness of the dollar has already led to a loss of the dollar's share of the Eurobond market relative to, say, the Deutschmark or Swiss franc. The dollar sector is London's strong point thanks to

the influence of American banks in the City, and therefore the shift in the currency mix has led to some drift of business to Continental centres like Zurich, Frankfurt and Luxembourg.

Meanwhile the City continues to pull in large amounts of invisible earnings, service to offset at least part of the visible trade gap which has been a normal feature of the UK economy. Official estimates published by the Central Statistical Office suggest that total net earnings of the financial institutions which make up the City have been on a regular increasing path in recent years, reaching £1,545bn in 1976.

Of this total the insurance industry—taking the companies, Lloyd's and the brokers to gether—accounted for \$600m, while UK banking institutions earned £400m, twice as much as in 1975. Other notable earners were the commodity markets, generating net earnings of some £200m, and the Baltic Exchange at around the £150m mark.

When they are published later this year, however, the figures for 1977 may not be so impressive. Banks are thought to have earned less in the Eurocurrency markets, for instance, partly because of lower interest rates and narrower and more competitive margins. The Baltic Exchange and the commodity markets will have been adversely affected by the world trade recession. The rise in sterling late in the year will have reduced the sterling value of foreign currency revenues.

Still, even on the basis of slightly lower earnings the City of London will remain a very substantial asset of the country. Some may argue that there are hidden penalties—that the City prospers only by drawing human talent away from the less glamorous manufacturing sector of the economy, which is left to languish. But in a period when employment in manufacturing industry appears to be on the wane world-wide, the City's large share of the international financial services industry looks increasingly valuable.

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EXPORT FINANCE

Foreign banks given access
to U.K. business

OVER THE PAST 18 months Britain's export finance business has been thrown open to the world banking community exposing U.K. clearing and merchant banks to competition for the first time. It is a field in which foreign banks and Americans in particular have been anxious to get into for some time both for the lending business itself and for the access which it can give to more general UK corporate financing.

U.K. merchant banks have been concerned from the start and there are now signs that the clearers too are becoming increasingly apprehensive about the threatened competition. It is still too early to assess the real impact of the foreign banks — it is after all an unfamiliar and traditionally closed business to get into.

The foreign banks themselves do not expect to become a

market force for a year or two. Others predict that within the next year or so they will have picked up about 30 per cent of the business—currently split fairly evenly between the clearers and merchant banks—with the clearers perhaps losing more of their market share than the merchant banks.

It all began with Chancellor Denis Healey's mini-budget in December 1976 when he announced the Government's decision to switch buyer credit financing out of sterling and into foreign currency. Essentially, this meant that instead of the clearers putting up the necessary finance in sterling, all of which—above a predetermined limit—was financed to them by the Government, the necessary funds would be raised by banks on the European market.

For a while there was a good deal of debate as to whether foreign banks should merely participate in the loan syndicates—there was obviously a limit on the amount of dollar financing which the UK clearers could put up—or whether they should also be permitted to arrange the financing—previously the domain of the merchant bankers.

Defined

Initially the field was wide open if confused. But in the autumn of last year, after a good deal of conflicting pressure from both the UK and foreign banking community, the Government defined which banks could lead the financing. It stipulated that only authorised banks which are registered as UK companies could lead the syndicates. Most UK branches of the major foreign banks are authorised banks but few have set up a merchant banking subsidiary.

It also ruled that these registered banks could not extend participation in the syndicate to other banks within the same group unless they too fulfilled the same registration conditions. The stated aim was to put UK and foreign banks on an equal footing. Foreign banks participating in export credits would now be subject to the same Bank of England regulations as domestic banks.

While foreign banks generally accept the overall requirements they are unhappy with the stipulation which prohibits them from syndicating "in house." This is a regulation which they consider irrelevant and hope to see dropped in future. Some British banks, on the other hand, fear that if it were they would find themselves excluded from syndicates led by foreign banks. To an extent some claim there have already been instances where syndicates led by U.S. banks have been composed exclusively of American banks.

When they were announced, these new government regulations were generally interpreted as a step backwards for the foreign banks. But in fact it was only the beginning for by the end of the year sterling export credit financing had also been opened to them.

As part of the general review of sterling financing arrangements conducted by the Government, Bank of England and the clearers it was agreed that from April 1 this year all authorised banks registered as companies in the UK would be eligible to undertake sterling export credits.

They would be able to both provide the finance, and thus be eligible for interest rate support and refinancing, and lead the lending syndicates.

At the same time, it was agreed that all participating banks would in future take the first five years of the financing on their own books.

Pondering

This meant that the preserve of the clearers as sole providers of sterling funds was now open for the first time to other UK banks such as the Co-op Bank and the merchant banks but also of course, those foreign banks which fulfilled the registration requirements. The amount of sterling available from foreign banks will obviously be limited by the size of their sterling deposit base though it is likely that they will raise sterling in the market. Most foreign banks are still pondering the relevant documentation and procedures—all of which is relatively unfamiliar to them.

So far only one sterling loan has been funded by a non-clearer since the scheme was extended and that was by a UK merchant bank. A £2m. general purpose line of credit was signed between Morgan Grenfell and the Bank of Alexandria in Cairo on April 3 to finance exports of UK capital goods and services to Egypt.

It may well be that the foreign banks will not be as active in sterling finance as they are expected to be in foreign

currency financing. The major advantage to them is that the sterling scheme gives them more flexibility, enabling them to offer the British exporter either facility. The banks also regard it as a way of ensuring that they will not be squeezed out of the export credit business should the British Government at any time reverse its policy of encouraging foreign currency financing.

Another change which will clearly be happy at the prospect of seeing foreign banks active in export credits, given that it has made this possible in the first place. There are of course restrictions such as those mentioned earlier. Added to this, ECGD is not likely to permit a foreign bank to undertake financing where the borrower has any direct links with the bank involved so that it can be presumed that Moscow Narodny, for instance, would not be able to finance British exports to the Soviet Union.

The Government's decision to open up the market to foreign banks was presumably motivated by the need to ensure adequate supply of funds for the export. As far as the American, but Manufacturers concerned they see UK export for over 8 per cent of total funds provided and Bank of America for some 3 per cent.

The field continues to be dominated by Lloyds Bank International which led some 25 per cent of the loans signed and accounted for about the same proportion of funds provided. Next in line as lead managers were Barclays Bank International and Morgan Grenfell, each with around 10 per cent of the market, with the former accounting for some 10 per cent of total funds and Morgan Grenfell about 9 per cent.

But this is only to be expected given that the foreign banks have still to build up the necessary expertise and recruit experienced staff. They also have to sell themselves to the British exporters. This they are already doing fairly aggressively but it takes time for this to pay off, even longer for deals which potential customers are currently negotiating to become firm contracts which require financing.

While the U.S. banks have made the biggest showing so far in foreign currency financing a wider selection of banks are showing interest in sterling financing. The American banks

are there too, but among those who have made initial approaches to ECGD are Banque Nationale de Paris, Société Générale, Banco Urquijo, Bank Leumi, Banque Belge, Mercantile Bank of Hong Kong, and Moscow Narodny. Some have already decided against getting involved, but most are simply investigating fully before committing themselves.

The British Government is clearly happy at the prospect of seeing foreign banks active in export credits, given that it has made this possible in the first place. There are of course restrictions such as those mentioned earlier. Added to this, ECGD is not likely to permit a foreign bank to undertake financing where the borrower has any direct links with the bank involved so that it can be presumed that Moscow Narodny, for instance, would not be able to finance British exports to the Soviet Union.

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Contact

Even so it is business which the foreign banks are anxious to get into. On one hand it represents a new lending opportunity for them and on the other brings them in closer contact with the UK companies which they hope will lead them to more extensive corporate financing. In this context they claim they can offer a wide range of facilities and expertise to the UK company. In the export credits field itself they reckon that the main edge which they have over the UK banks is that they are more prepared to take on 100 per cent of the financing involved. Although

export credits will cover as much as 80 to 85 per cent of the UK contract, the down payment, local and other costs can often represent as much as 40 per cent, if not 50 per cent, of the total costs.

This is a claim which is strongly rejected by the U.K. banks, and the merchant banks, in particular, who assert that they too offer 100 per cent financing. They concede that some of the large U.S. banks may provide all the financing off their own books whereas they would syndicate the loan, but the net result is exactly the same. The provision of 100 per cent financing has, therefore, never presented a problem.

This is just one area of disagreement between foreign and British banks. The foreign banking community maintains that it is not aiming to take business away from UK banks and there are several UK banks which agree that there is plenty of room for them. But while the market will presumably grow, as hopefully U.K. exports expand, the size of the cake is nevertheless limited.

Foreign banks claim that the merchant banks have more to fear from UK clearers who in their view have already taken a sizeable chunk of business from them over the last year or two. The clearers themselves have hitherto presented a calm front to the threatened foreign invasion but are apparently becoming more nervous as they begin to realise that in the longer term they may have more to lose if foreign banks do indeed make inroads into their general corporate business.

The arguments against the foreign banks are many and varied but mainly prompted by the fear that the U.S. banks in particular may squeeze out the domestic banks. It is felt that they will be able to use their financial muscle to persuade a borrower who may already be heavily committed to a particular bank to use that bank for financing contracts. It is also argued that whereas the UK exporter and UK bank export often go out to negotiate overseas deal together there will not be the same national interest if the bank is a foreign one. Added to this, sister or parent companies of the foreign bank concerned may be advising competitors, so, it is argued,

the bank will have little interest in which of these companies wins the contract as long as one of them does. This is refuted by the foreign banks which assert that under these circumstances they operate as an individual bank.

On the nationalist front it is also pointed out that whereas a few other countries do in theory allow foreign banks to undertake export credit business, in practice it is virtually impossible to do more than participate in loans. The Government's move to open up the British market is therefore unprecedented. It also represents a loss to invisible earnings if fees now have to be shared with foreign banks.

Widened

As far as the exporter is concerned, the outlook must be good, if bewildering in the short term. Good because the sources of funds available to him have been considerably widened, the market will presumably be inundated by promotional material and other marketing plays as the banks fight it out. The practical spin-off could be cheaper financing. As part of the new deal agreed between the government and the banks the fee structure is no longer rigid. In the past the clearers charged a 1 per cent commission but this is now a matter for negotiation between the banks and their customers. Given the increased competition for the business the exporters should be able to shop around for cheaper financing.

The long-term results of opening up Britain's export credit business are more difficult to predict. The UK banks must surely lose some of their market share but how much will depend on how they react to the new challenge. The government will that they will be able to use their financial muscle to persuade a borrower who may already be heavily committed to a particular bank to use that bank for financing contracts. It is also argued that whereas the UK exporter and UK bank export often go out to negotiate overseas deal together there will not be the same national interest if the bank is a foreign one. Added to this, sister or parent companies of the foreign bank concerned may be advising competitors, so, it is argued,

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Looking for modest recovery

THE FRENCH banking community which, only three months ago, was still shivering at the prospect of a left-wing victory at the general election and the complete nationalisation of the financial sector, is now breathing more easily. The victory of the centre-right coalition has not only removed the threat of an extension of state control over the one-third of the banking sector still in private hands, but has produced a much more optimistic business climate. The international economic situation permitting, industrial production and investments should pick up moderately during 1978 and the banks can clearly expect to benefit from the general, if modest, recovery of the economy.

If bankers are not shouting their joy from the rooftops of their palatial establishments, this is not due entirely to the traditional reticence of their profession. Having slain the dragon of nationalisation, they still find the road blocked by the monster of credit controls which, what is more, have been imposed upon them for the past six years by a government firmly wed to a free market economy.

To add insult to injury, as far as the bankers are concerned, M. Raymond Barre, the Prime Minister, has agreed to free industrial prices progressively while still keeping a tight rein on the services sector. In the

monetary and financial field this means in practice that the growth of the money supply will be restricted to 12 per cent in 1978 and that the ceilings on the expansion of bank credits will remain in force for the foreseeable future.

There are, of course, very good reasons behind M. Barre's policies. Like any other manager of a national economy, he is walking a tight-rope. Having decided to provide a little more oxygen for industry, which has been suffering from reduced profit margins and depleted treasuries, the Prime Minister must be careful that what he hopes will be only a temporary new twist to the inflationary spiral will not get out of hand.

Policy

The Government's new price policy is expected even by its author to put 1 to 2 percentage points on the rate of inflation in the current year, thus jacking it up to somewhere between 10 and 11 per cent. Only a continuation of a tight monetary and credit policy, coupled with wage restraint, will prevent it from soaring even higher.

There are those who claim there is a contradiction between the Government's desire to stimulate industrial investments, which have been stagnating during the past two years,

and restricting the banks' capacity to lend. But this argument is rejected by the Government which maintains that its chief purpose in freeing industrial prices is to enable industry to operate profitably and to finance more investment out of own resources. The overall economic strategy of the Government is in any case relatively modest. Far from wishing to create the conditions for an economic boom, which would not be realistic in the current international context and would carry with it the danger of overheating, it is aiming for a growth rate of little more than 3 per cent in 1978.

The banks can hardly quarrel with the Government's objective of keeping down inflation and most leading bankers will admit that it would be folly suddenly to relax the control over the money supply. But they feel very strongly that the present system of credit norms is much too rigorous and bureaucratic.

Leading the crusade against credit controls, after having been one of the most outspoken critics of the Left's nationalisation programme, is M. Jean-Maxime Leveque, chairman of one of the country's biggest private banks, the Credit Commercial de France. M. Leveque does not mince his words. At the annual general meeting of

his bank last month, he described the controls as "a barbarous practice" and said that France alone among the biggest Western countries had permanent recourse to such a system.

If it were to continue much longer—it has already been applied since 1973—it would have the effect of permanently crystallising the respective positions of the banks and of sapping their competitive spirit, he said. A much more flexible and less uniform system was required, based possibly on the relationship between banks' capital and the credits they grant.

The critics of the Government's credit policies no doubt have a point, but an objective analysis of the situation shows that they have tended to overstate their case. While, in 1977, a credit growth ceiling of 5 per cent was imposed on the eight largest banks whose outstanding loans exceeded Frs 6.5bn (about £750m) at the end of June 1976, important categories of loans were exempted from this provision. These included short and medium-term export credits and loans to finance energy-saving investments and represented as much as 20 per cent of total domestic lending.

Consequently, the loans actually distributed by the banks last year grew by nearly 14 per cent, compared with 15.7 per cent in 1976. And in the second half of last year, the demand for credit fell by so much that it did not even attain the maximum monthly limits set by the authorities. The banks were therefore enabled to build up substantial credit reserves which they could carry over to 1978 and which were not subsequently subject to the growth norms.

A look at the banks' results for 1977 shows that by no means all of them appear to have suffered too much from the constraints imposed upon them by the Government. Mr. Leveque's own bank, the Credit Commercial, last month announced an increase in net profits in 1977

to Frs 77m from Frs 68m. the previous year and was able to raise its net dividend from Frs 7.40 to Frs 8.00 following a 65 per cent increase in the payout during the three previous years.

It can hardly be said, therefore, that the banks are in a desperate position and there are no indications that the Government intends to modify fundamentally its credit control policy in the immediate future. A more sympathetic hearing, authorities to other complaints which have been voiced with increasing insistence lately.

Though the conventional wisdom in France is that the mixed system of nationalised and private banks has worked reasonably well, there are areas in which it is manifestly unfair to the private sector. Long ago resigned to the fact that the nationalised deposit banks, brought under state control just after the Second World War, are there to stay, the private bankers have recently turned their guns on the nationalised para-banking institutions, which provide a more vulnerable target.

Resentment

A particular source of resentment is the privileged position of the Credit Agricole. Specialising in soft loans to farmers and now one of the biggest "banks" in the world, the Credit Agricole is heavily subsidised by the Government and, unlike the three nationalised deposit banks (Banque Paribas, Caisse d'Epargne, Caisse d'Allocations Familiales), is exempted from company taxes. "Third in the world and first on earth," according to its latest advertising campaign, the Credit Agricole can hardly be said to have achieved this eminent position entirely by the sweat of its own brow.

What is more, it has lately spread its tentacles to much less specialised areas by opening branches in the heart of Paris, Lyons and Marseilles, thus competing directly with the traditional deposit banks. As one French banker put it ironically: "I can't see many

peasants opening an account on the Place de l'Opera."

The word in banking circles is that the new French Government is beginning to take note of the criticisms and feels that something must be done to put the para-banking institutions such as the Credit Agricole and Credit Mutuel on a more competitive footing.

Meanwhile, the restrictions imposed on the banks at home means that they have looked increasingly at foreign markets for an expansion of their activities. Banking income from creation of Societe Generale's abroad has, in many cases, European American Bank and

increased by 50 to 100 per cent faster than domestic revenue and more than 30 per cent of most of the larger banks' profits are currently generated by their foreign operations.

After the great explosion of new branches in France following the Debre banking reforms of 1966-67, which abolished the legal distinction between deposit and merchant banks, the French banks are now thoroughly internationally orientated. The invasion of North America, with the

Trust Company, BNP's French American banking Corporation and the Becker Warburg Paribas Group, has been paralleled by the heavy involvement of French banks in the Middle East, the Far East and Latin America.

Whatever bankers may say in public about the inequities of the Government's credit policies, there can be little doubt that they have helped to widen the French banks' horizons.

Robert Mauthner
Paris Correspondent

WEST GERMANY

Wary view of prospects

THE West German economy, with nearly five months of 1978 gone, is perplexing most of those whose business it is to follow it. The spurt of growth that was discernible at the end of 1977—and which was some consolation for last year's disappointing 2.4 per cent rise in real Gross National Product—seemed to run out of momentum by the end of the first quarter of 1978.

Yet not all the signs are discouraging. The most recent industrial orders figures (for March) show that there was some recovery from the very low level of activity registered in the early months of the year. Other indicators are ambiguous. Inflation is likely to be well under 3 per cent this year, while interest rates are at their lowest levels since the mid-1960s. The trade surplus, for all the frayed nerves about what an over-dear Deutsche mark may come to happen to German exports, remains embarrassingly robust.

What are the authorities to make of all this as they move to forestall criticism expected at the July Summit meeting in Bonn of leading industrial nations? Chancellor Helmut Schmidt's coalition Government of Social Democrats and Free Democrats has promised its foreign partners that it will take a fresh look at the case for a further stimulatory measures once full data for the first quarter are in hand. But which business viewed the figures are not yet available and may not be for several weeks.

The pressure on Bonn persists, however. Much of it is predictable enough, such as the periodic urgings of the British Treasury or of the Carter Administration in Washington that West Germany should accept its role in a "convoy" of economies supposedly steaming towards calmer waters (last year the catchword was "locomotive").

Underpin

Pressure on Bonn has been increasing recently from domestic sources in favour of a fresh round of measures to underpin a growth target of 3.5 per cent in real GNP for 1978, which Ministers called "ambitious yet feasible" when it was announced only in mid-January. Most penetrating so far has been the spring report published in late April by the joint working party of the country's five leading economic institutes. It forecast an increase in real GNP of no more than 2.5 per cent this year and called unambiguously for further cuts in personal and corporate taxes as the best means of injecting a further stimulus.

"Although hopes of a sustained improvement in the development of the economy by its foreign partners that it will take a fresh look at the case for a further stimulatory measures once full data for the first quarter are in hand. But which business viewed the figures are not yet available and may not be for several weeks.

to hopes of an upswing, has meantime largely faded away."

Official economists have little quarrel privately with the institute's analysis, even though Count Otto Lambsdorff, the Minister of Economic Affairs, was obliged to dismiss the call for tax cuts with the curt remark that such talk was "pointless" until the full first quarter review could take place. The real question, the Government believes, is whether policy measures of the classic kind are appropriate in addition to those already taken, whose effects are now beginning to be felt.

As it is, the four-year DM160bn. medium-term investment programme agreed in March 1977 is having a favourable effect on construction activity. The impact of the DM15bn. tax cuts which came into force this year has not yet been fully felt. Meanwhile the Government has also budgeted for a total of DM31.5bn. in new borrowings, which will lead to DM10bn. more public debt than last year.

On the monetary side, Dr. Otmar Emminger, president of the Bundesbank, has been saying ever since last summer that there was little more that could be done. While a certain number of companies may be waiting for interest rates to fall still further, there can be little doubting his thesis that it is not the cost of credit that is putting people off borrowing more. Despite heavier borrowing by the public sector and by private customers there is still a liquidity reserve in the economy which, the Bundesbank has warned, could even be excessive in the event of a very rapid recovery in activity.

Meanwhile the Frankfurt central bankers' now seemingly permanent "experiment" with setting targets for the growth of the money supply is being continued, with a 6 to 8 per cent range of increase for the chosen aggregate, the central bank money stock. If the Bundesbank has come in for criticism from monetarists for allowing somewhat more rapid growth than this, its answer would be that its target was to ensure stable growth outweighs purity of doctrine, and that the target will not be made the occasion for any tightening up in present circumstances.

If the authorities and their critics are united on the analysis of the economy's present malaise, they can also agree on the two most fundamental uncertainties that still weigh on it. The first of these is the sea change that has taken place in the area of labour relations and wages during the past year or so. The most immediate effect of this is in the high level of wage increases—by West German standards—won in the hard-fought and expensive engineering and metalworkers' strike this spring in

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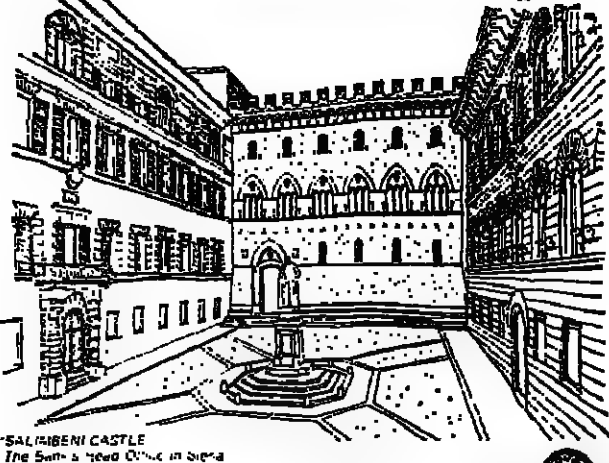
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THE NETHERLANDS

Looming credit curbs

BUSINESS CONTINUES to last April. One month later, the Dutch Central Bank, Economic Minister Mr. Gijs van Aardenne was telling parliament that the country's economy and the Central Bank's wards his expectations of decision to curb credit volume economic growth. Apparently have slowed down rates of taking a different definition of growth. Holland's domestic economic growth, he foresaw banks are expanding abroad in an annual increase of 3 per cent in the next few years compared with his earlier hopes of dam continues to lengthen. The 3½ per cent.

Unemployment is expected to rise to an average of 215,000 in 1977 while they also been partly successful in stabilising the growth of money supply at around 7 per cent.

The general economic situation is not as bright as there be signs of success in some areas. The country's main rise 3 per cent in 1978 compared with a fall of 2 per cent in 1977. But seen in the light of a 2½ per cent increase in gross of an expected 5 per cent rise national product this year, the in world trade this implies a same as in 1977, when it produced its annual set of forecasts

the Dutch Central Bank, economic backcloth? The big two commercial banks have both achieved respectable if unexciting levels of growth. Amsterdam-Rotterdam Bank (AMRO) started the annual report season with news of a 15 per cent rise in profits (14 per cent in 1976). Its balance sheet total was 19 per cent higher compared with the 20 per cent rise of the year before. Alsema Bank Nederland (ABN) followed with a 14 per cent increase in both profit and balance sheet total (10 and 16 per cent respectively in 1976).

At the Nederlandsche Mid-denstandsbank (NMB) net profits were 26 per cent higher (39 per cent) while the balance sheet rose 22 per cent (36 per cent).

How well have the Dutch cent?

The largest bank in Holland, with more than 10,000 agricultural and industrial co-operative banks in Denmark, France, West Germany, Austria and Finland. It is also expanding its stake in the international insurance market.

The Westland-Utrecht Bank has ambitious plans to expand its property development activities into the rest of Europe while it also sees potential for developing its personal lending, life insurance and savings account activities.

But the potential competition which most worries the bankers is the plan to merge the post office savings bank and the postal giro system into a state-owned giro office bank. If the new state bank were to extend its operations into the fields of commercial credits and to compete actively for customer funds by 58 per cent. Local authority delays in releasing land, pressures on space in the crowded "Randsd" and the sudden taste of the Dutch for a home of their own made mortgage banks the top performers in 1977.

Holland's traditional universal banks are facing increasing competition. The Rabo may be Holland's largest but it has for a long time been regarded as a sleeping giant. This is now changing. While maintaining its role as a provider of finance to the agricultural sector it is expanding into new areas. The new Rabobank logo is almost as familiar now in Dutch towns as that of its two big commercial rivals, ABN and AMRO. Rabobank is also does not present a threat to the moving abroad. It has joined Unico-United Cooperative Banks of Europe. This gives it links strongly for wholesale business.

CONTINUED ON NEXT PAGE

Sparkassen and Landesbanken in the Federal Republic of Germany



The Savings Banks Organization in the Federal Republic of Germany embraces 822 Sparkassen, 12 Landesbanken and 13 Bausparkassen. Their combined balance sheet total reached DM 687.7 billion at year-end 1977. This is the approximate equivalent of 40% of the total balance sheet of all credit institutions in the Federal Republic of Germany. The Savings Banks Organization is thus the largest grouping of credit institutions in West Germany. The importance of this organisation within the West German economic structure for the individual citizen can be illustrated by the following figures: In Germany the Savings Banks Organization has 62 million savings accounts, 1 million more than the total population of the Federal Republic and account for a total of DM 232 billion in deposits, which is approximately 53% of total savings deposits in Germany. DM 39 billion are held in the form of savings certificates which represent 72% of all savings issued by German credit institutions. Total turnover of the "Giro" network exceeded DM 8,000 billion during 1977 which is five times the turnover of the postal chequing service, and the construction loans of the Savings Banks Organization financed more than half of all new dwellings in the last year. Around 200,000 staff members are employed by the Savings Banks Organization and work in more than 16,950 offices located throughout the country ranging from big cities to small rural districts. They can be found wherever money is invested, credits are made available or money transfers are required.

The institutions of the Savings Banks Organization are in public ownership, which in turn fully guarantees the very existence of these financial institutions. These guarantees are provided for Savings Banks by local authorities and as far as the Landesbanken are concerned by the respective state authorities and Sparkassen within this region. The business of these Sparkassen, Landesbanken and Public Building Societies is conducted on the same principle as the entire free market economy in Germany. A prime objective of the Savings Banks Organization is to provide competitive service to all other credit institutions, i.e. the private commercial banks and co-operative banks which encompass all sectors of finance. This is of benefit to private individuals, enterprises and the public sector which have at their service—anywhere in Germany—banking facilities at competitive costs.

The specific character of the Sparkassen and Landesbanken is to be found in their legal framework established by the German states, whereby the banks must fulfil specific tasks.

These laws specify that Sparkassen have to concentrate on certain sectors of the economy which are of importance to the respective city or region. This assures that the necessary services—credits, investments and money transfers—are available. Sparkassen cannot seek more lucrative business in other parts of the country, hence they serve as a counterweight to possible market concentrations and thus guarantee even and broadly-based banking facilities in all areas and regions of the country. This was a primary reason for the economic upswing in the Federal Republic of Germany following World War II. The main activities of the Savings Banks Organization are, for example, home financing, the financing of municipal investments, the trades and up-to-date credit facilities for private households. These services contributed substantially to a constant development of the German infrastructure which includes home building, roads, schools, hospitals, as well as business and retail stores.

At the same time, the credit institutes of the Savings Banks Organization have established a worldwide network with major business centres. Clients of the Sparkassen in the Federal Republic have business contacts all over the globe and in turn businessmen in all parts of the world seek German partners. The German Savings Banks network makes it possible for these contacts to be established with efficiency and speed anywhere in the Federal Republic. In this context, the Sparkassen work closely together with the Landesbanken. The Landesbanken are, in fact, the Central Banks for the Sparkassen and act as clearing houses for cashless payments by Sparkassen on a national level. Above all, they maintain close international links through a great number of their own branches and offices abroad as well as an extensive network of correspondent banks around the globe.

Finally, Public Building Societies (Bausparkassen) are specialised credit institutions that finance housing in the Federal Republic. Client members of these home loan associations become contractual savers who generate their own capital and who together with a loan granted under special conditions then have the necessary funds for home building after completion of their contract.

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WEST GERMANY

CONTINUED FROM PREVIOUS PAGE

the key North West Germany/North Baden region.

This has, as is often the case, become the norm for the industry nationwide—and indirectly for other workers in other sectors. What makes the settlement exceptional is not so much that it pushes against the limits of what the Government believes the economy can afford, but that it also for the first time directly protects workers from the effects of investment in labour-saving machinery.

Such a clause has been sought in other industrial negotiations, and it could be said that the bitter dispute in the German printing industry this spring essentially turned on the same issue of defending jobs from the inroads of machines. Such a goal on the part of trade union negotiators is understandable at a time of unemployment running at close to 1m on average all the year round.

The union leaders perceive that for all the political speeches made about the need to return to full employment it has become—thanks to the social security system—a permanent feature of life that one German in 25 of working age should not be working. Their response has been—again despite much outcry to the contrary—to close ranks by protecting the jobs of their members and getting the highest wages they can for them.

Strain

In the past employers would have grumbled but eventually paid up, and the Bonn Government, with the rest of the world, would have been duly impressed by the relative restraint of German unions and by the cohesion of the German social contract. To-day that contract is under strain, with the unions boycotting its most visible machinery, the so-called concerted action conference, and the employers challenging through the courts the hard-won Workers' Participation (Mitbestimmung) Act.

What has contributed to a new hardness on the side of employers has been the second major uncertainty weighing on the German economy—the remorseless climb of the Deutschmark against the dollar and against virtually every other currency. Scarcely any company has reported this year without making clear that for West German products on export markets, breaking point may now have been reached. It is no use pointing to the experience of past revaluations and to the amazing resilience of Germany's typically high-technology export items such as machinery and industrial plant. The fact is that competitors have in many cases caught up in quality, and are able to offer prices 35 per cent and more lower.

What does all this mean for the German banks? For all the gloom to be heard from industry ever since it became clear in the middle of last year that recovery had faltered, the past year has not treated the banking business unkindly. With a few profit figures still to come, the general message from the bankers is that a good deal has changed since the days when industrial credit demand was the main determinant of their prosperity, although it remains an important factor—strengthened if anything by the banks' own long-term holdings in many of their major industrial customers.

On the domestic side profitability has been aided by an increase in private customers' borrowings to buy items like cars, houses and expensive foreign holidays. Demand from public bodies is likely to remain brisk, especially if Bonn succeeds in persuading State and local authorities to follow its own example of calling a halt to the process of trimming back public debt.

Yet the brightest area of the banking picture is once again foreign business. The major commercial banks and several of the publicly owned Landesbanken derive as much as 30 per

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United in a common purpose

THE HEADLINES tend to give the impression that Italy is more or less in a state of permanent chaos, and certainly the recent escalation of politically-motivated violence, culminating in the kidnapping and subsequent assassination of Sig. Aldo Moro, the former prime minister, has only added to this image of gloom and even imminent doom.

Yet for the first time in almost a decade, Italy's balance of payments account overall showed a healthy surplus of some \$3bn last year, another surplus appears likely this year (given no drastic change of course in economic management, and no major political crisis), and the minority Christian Democrat (DC) Government of Sig. Giulio Andreotti, is planning to have the economy growing at an annual rate of 4 per cent plus by the last quarter of 1978. The inflation target is for a maximum 13 per cent.

Superficially at least, it is no dismal performance, or even promise. The official reserves have risen sharply, indeed spectacularly so, when compared with the position at the time of the exchange rate crisis two years ago, even if the gains are somewhat notional, reflecting a sizeable increase in the external liabilities of the banking system.

The Andreotti Government, while being a minority administration, won its confidence

motion with the backing of some 90 per cent of the votes in parliament, following a rather unique and very Italian arrangement which has moved most of the opposition parties, including in particular the powerful Communists (PCI), into a kind of limbo in which they are not part of the Government as such, but they are an essential part of the Government's parliamentary majority. In these terms at least, and for the moment anyway, Italy probably has one of its most stable governments in three decades.

The principal parties are—or at least claim publicly to be—more or less as one on the big issues facing the country, on the need to combat terrorism, to create more jobs, to contain the enlarged public sector deficit, to restructure industry, to reorganise the health services, to reorganise the social welfare structure, to aid investment in the depressed southern regions and to revitalize the long-neglected agricultural sector. The Communists want a more efficient stock exchange to serve as a vehicle for channeling small savings into industry. The long-ruling Christian Democrats give the impression of going through a period of public repentance, almost (if not quite) acknowledging their guilt for many of the nation's ills after more than 30 years of DC government. The trade union leadership is talking about the need for moderation

in wage demands, for more labour mobility in industry, and for a limit to how much public funds, and for how long, should go to bailing out industrial lame ducks.

The whole thing is almost unreal, but then for the time being at least all this rapport is at the level of public statements and general commitments to bring about change. Suddenly it seems everyone is against sin and in support of virtue. Spending cuts are seen to be essential in order to stop the escalating public sector deficit from getting totally out of control, and because the International Monetary Fund (IMF) is demanding them anyway, but which cuts and in which services?

Quality

The new form for the future is supposed to be about the quality of public expenditure, not the quantity as heretofore, and the commitment, on paper at least, looks impressive. The enlarged deficit, to include the social security services and ENEL, the State power undertaking, is to be cut back to around L20,000bn (say £12.5bn) from the near L30,000bn it would otherwise be this year on the basis of unchanged policies. Another L4,000bn of new refinancing and job-creating spending is then added back, making a projected 1978

total deficit of L24,000bn or £15bn, and from Washington the IMF has signalled its approval.

This approval, incidentally, has come despite the undertaking by the earlier Andreotti Government, in its "Letter of Intent" to the Fund in April, 1977, to limit the enlarged public sector deficit in calendar year 1978 to L14,450bn, but then most of the parties to that particular undertaking are inclined to suggest at this point that this Letter of Intent deficit projection was taken more or less out of the sky after protracted negotiations, and an intervening General Election in June, 1978, had exhausted the energies and perhaps even the nerves of all the negotiators.

However, the revised figure for the current year is seen by all sides to be a great advance on what otherwise might have been, the only trouble being that it has not as yet been made clear in any specific way by the Government how the target is to be met. Fiscal drag, higher public utility tariffs, and some further improvements in the efficiency of the tax-gathering machine—there have been some improvements in recent years, but the urge to sidle taxes or, better still, avoiding payments altogether, remains a national sport on par almost with football—are to combine to boost the revenue side this year, and the unspecified spending cuts have yet, as noted, to be unfolded.

The target for domestic credit expansion is set for the current year at L40,000bn which, theoretically, is consistent with other main targets, but the apportionment between the State and private sectors has yet to be defined with any clarity, and the public sector's failure last year to operate within assigned, or at least self-imposed, limits is not an encouraging omen.

However, some more concrete indications are likely by the end of the month when the detailed budget provisions are due to be presented to Parliament. The so-called "three-three-three" formula which the Government has settled on in order to cut back the public sector deficit is to be unfolded, the package seemingly having

been agreed in new taxes and the next few years is hardly possible without the real danger of new payments difficulties. After all, the sharp improvement on the payments account last year was the main expense of a developing recession now, happily, showing signs of at worst bottoming out, and at best already in reverse, if only marginally so, on the basis of first quarter returns for industrial output. Additionally, it is only fair to add that the 1977 improvement was also due to a favourable adjustment in the terms of trade and, not insignificantly, to a big rise in earnings on tourist account, up last year by some 54 per cent over 1976 to show net receipts of \$3.8bn.

If skilled economic and monetary management helped greatly to save the day as it were last year, the monetary authorities Italy, a growth rate of more than 3 per cent, on average over

to loosen their tight controls on

credit to the private sector until they see more precisely how the Government intends relating its good housekeeping promises into practice, especially with the employer organisations and the trade unions demanding a run for growth at the expense of the reserves.

There was a sharp contraction last year in the rate of expansion of commercial banking loans, although many major companies did cover their funding requirements through international borrowings. The Bank of Italy has now extended through to July banks' lending ceilings which were due to come off in March, presumably in the hope of by then knowing in greater detail the likely credit demands of the state sector.

In this uncertain climate for the monetary authorities, interest rates have been maintained at a high level, although well off the crisis rates of 1976. Overdraft facilities for good quality borrowers are still in the 15 to 16 per cent range, leaving the commercial banks with a comfortable spread which in recent weeks has been reflected in improved dis-

closed profits for last year. The banks themselves justify their average five to six per cent spread on commercial transactions by pointing to their low-yielding locked-in assets at the dictates of the central bank via compulsory deposits, together with the under-utilisation of some of these available assets because of the recession. There is also growing concern that the banks' profitability and, indeed, their overall capital base need to be expanded if, in fact, they are to play an important role in financing—through an exchange of equity for existing credit lines—the long-promised industrial reconversion programme, a proposed role for them which has been advanced strongly by Dr. Guido Carli, now head of the national employer organisation, Confindustria, and also by many of the political parties. The central bank has similar ideas, although with limitations, being understandably concerned to ensure against any undermining of the status and credibility of the Italian banking system.

Dominick J. Coyle

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THE NETHERLANDS

CONTINUED FROM PREVIOUS PAGE

Following the wave of U.S., British and Japanese banks in recent years, the latest arrivals have strengthened the French presence. Societe Generale and the Banque Nationale de Paris have joined the long established Banque de Paris et des Pays Bas and the Banque de Suez. The third new arrival is the Hongkong and Shanghai Banking Corporation.

But the past year has also seen further moves abroad by the Dutch banks. The limits on expansion in the crowded Dutch market and the increased internationalisation of Dutch business — insurance companies, retail groups and the big contractors have all increased their overseas activities — lie behind this trend. AMRO, which up to now has worked largely through the European Banks International Company — the EFIC Consortium — is starting to set up its own branch network abroad. It has recently opened branches in London, Tokyo and Dubai. NMB has also been strengthening its operations in New York. It has opened its first Middle East office in Beirut, and it has bought a bank in Zurich which it has renamed NMB Bank Schweiz.

ABN is the bank with the largest foreign network through its historical links with the former Dutch territories in South-East Asia and with South America. It attributed one

third of its 1977 earnings to its foreign branches and affiliates. Including Eurocurrency business and foreign business carried out from Holland, the Banque share of earnings is nearer 50 per cent. In April it opened a second office in Tokyo, a month after its seventh U.S. branch, in San Francisco, began operations.

The question which has most exercised the minds of the Dutch banking community in the past few months is the decision by the Central Bank to continue its credit curbs. First introduced in May 1977 and working retroactively from January of that year, they were extended for a further three months at the start of 1978 and they are now due to run until the end of March 1978. Confusion surrounded the latest extension of the curbs with the Central Bank claiming it had eased the conditions and many bankers say they had been tightened. The Central Bank has imposed limits on lending financed by short-term borrowing to restrict the growth of money supply. Long-term borrowing can be passed on directly since it does not lead to the creation of extra liquidity. Borrowing short and lending long had led to excessive liquidity creation in the past two-to-three years.

Banks were allowed a ceiling of 12½ per cent on credit growth in 1977. This was

reduced to an annual rate of 10 per cent in the first quarter of this year and again to 8 per cent in the 12 months to next March. Although the percentage figure has been reduced, the Central Bank says it will allow savings deposits of two years and more to be classed as long-term funds, so these no longer fall under the curbs. Dr. Zijlstra sees this as a slight easing of the curbs although many bankers disagree.

The commercial banks could hardly be expected to welcome controls at the best of times. But they are particularly sceptical of their use in the present economic depression.

Their fears that curbs on credit would push up interest rates have not been realised however. Interest rates have been declining for several months and there are no signs of an upturn. The measure has been successful in persuading banks to increase their borrowings of long-term funds. The mortgage banks, which for the most part borrow long, have seen their business volume increase strongly. The higher levels of mortgage borrowing have been little affected however. The Central Bank has agreed to meet the banking community in September to discuss the impact of the curbs.

Charles Batchelor

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SWITZERLAND

WORLD BANKING XII

Flourishing year despite Chiasso

THIS TIME last year Swiss banking was rocking on its heels as more and more unpleasant details became known of the £600m scandal involving the Chiasso branch of Credit Suisse. National Bank president Dr. Fritz Leutwiler was voicing a widely held fear when he said shortly after the story broke that "would inevitably affect the Swiss banks' reputation for soundness and integrity." There were few people last spring who would have been sanguine enough to foresee that business would continue virtually as normal for all concerned and the standing of the country's banking network come out of the drama with hardly a dent.

As was increasingly obvious as the year wore on, the shocked surprise of the outside world led to very little withdrawal of custom from Switzerland. Most banks—including Credit Suisse—returned record profits for 1977 and the combined assets of the 71 banks reporting their figures to the National Bank reached a new peak of of SwFr 284.4bn by the year's end. To quote Rainer E. Gut, Board spokesman of Credit Suisse: "It was the Chiasso case itself which also proved the strengths of Swiss banking."

All this does not mean that the scandal has been without consequences. Apart from the herculean task of sweeping up the pieces in which Credit Suisse itself is engaged, the question of more efficacious bank control has been thoroughly ventilated and has led to efforts at all levels to stop burgeoning business from getting out of hand. Particularly important measures have been the five-year agreement between National Bank and the Bankers' Association to improve the identification of clients and hinder the "aiding and abetting" of fugitive fund movements, together with the Bankers' Association own recommendations on the running of fiduciary business and the granting of bank guarantees. The Association has also laid down guidelines for internal bank control systems and—like the Government's Banking Commission—considering new rules for the protection of depositors.

Rather less to the banks' liking is a referendum proposal presented to the Annual Congress of the Social Democratic Party in Basle last week for increased public surveillance of the banking system. The motion aims at a constitutional amendment such as would extend the reporting obligations of banks, finance companies and similar bodies—particularly with a view to countering tax avoidance—towards the authorities and the general public, limit banking interests in non-banking companies and lay down obligatory insuring of deposits. The Social Democrats' proposal has not much chance of finding the necessary approval in a future poll—but it is much clearer and more realistic than the party's original vague ideas in the immediate wake of "Chiasso."

Meanwhile, this year got off to a fairly good start for the banks. First quarter business of the Big Three developed to the satisfaction of Swiss Bank Corporation and Credit Suisse, Swiss foreign banks' spokesmen though income was down in this case of Union Bank of Switzerland; all three banks showed a new rise in assets. Virtually every Swiss bank in portfolio management has been hit by the non-resident investment ban re-introduced in late February to counteract an excessively high Swiss franc exchange rate, however, and all are now feeling relieved that after Whitsun this was toned down at least to the extent that foreigners can buy new shares with proceeds from the sale of other Swiss shares.

Another general cause for complaint is the fall in foreign-exchange and precious metal dealing income, largely because of strict Government currency regulations. At the same time, non-resident money in Swiss banks was hit earlier this year by National Bank measures including an extension of the negative interest liability on new and some existing foreign deposits in Swiss francs.

Problems

Banking in Switzerland is certainly becoming increasingly difficult in the light of monetary restrictions—quite apart from such current problems as the difficulty of placing a steady flow of domestic money at worthwhile interest rates. Problems are especially marked, as was pointed out at length by speakers at this month's Association of International Bond Dealers congress in Zurich, for the private banks and the foreign-owned banks. In May alone two well-known private banks (one in Geneva and one in Zurich) were taken over by the larger institutes, while the Corporation and Credit Suisse, Swiss foreign banks' spokesmen though income was down in this case of Union Bank of Switzerland; all three banks showed a new rise in assets. Virtually every Swiss bank in portfolio management has been hit by the non-resident investment ban re-introduced in late February to counteract an excessively high Swiss franc exchange rate, however, and all are now feeling relieved that after Whitsun this was toned down at least to the extent that foreigners can buy new shares with proceeds from the sale of other Swiss shares.

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There is a general interest in expanding operations abroad—despite occasional disinvestments like that of Union Bank of Switzerland in the New York joint venture UBS-DB—and the interest in opening up new domestic branches has reached the level where the four biggest commercial banks (the Big Three plus Swiss Volksbank) have reportedly started talks on the re-introduction of a self-restraint programme.

Switzerland's banks remain, unlike their German counterparts, chary as far as non-bank engagements are concerned. According to Dr. G. Tobler, a managing director of the Union Bank, only 0.1 per cent of the assets of all Swiss banks were accounted for by industrial participations as of the end of 1976, with an only very slightly higher share of 0.15 per cent in respect of the big banks. In fact banks have not always been lucky in their outside investments—although the Credit Suisse stake in the Jelmini department store proved lucrative until sold last year—not a few of which have fallen unwanted into the banks' laps.

It seems likely that Swiss banks' shareholdings in non-banks are due to decline rather than rise in future, for all that the Social Democrats are suspicious of "interlocking." It remains to be seen, however, whether the banks' actual influence at boardroom level will decrease and to what extent the habit of banks' proxy voting at other companies' general meetings will be modified.

John Wicks
Zurich Correspondent

IRELAND

Good if dominant influence

THE IRISH banks loom peculiarly large on the local scene. In most Western countries banks are accepted as institutions of considerable power and influence but in Ireland, while their corporate image is good, they are seen as especially powerful and pervasive.

The reason for this sense of omnipotence probably lies in their size in a small economy made up of small units. The four commercial banks which form the "associated banks" had assets of almost £3bn as of February last, and of these the largest share belongs to the two Irish-owned banks, Allied Irish Bank (AIB) and the Bank of Ireland (not to be confused with the Central Bank which is called just that).

In Ireland only the Government itself and its semi-State corporations can compare in scale. Small wonder then that the doings of the banks are frequently a subject of public comment and sometimes of misunderstanding.

On profitability the banks claim their figures do not really represent growth in a time of inflation. The Bank of Ireland has almost £2bn on deposit. This base, despite the popularity of the bank issues in Ireland, Mr. McGlinn claims there could come a time when the public says no.

The chief executive of Allied Irish, Mr. Joseph McGlinn, also for example, return on capital claims that his company's employed for AIB was a reason-

CONTINUED ON NEXT PAGE

BANQUE INTERNATIONALE A LUXEMBOURG

BIL reports good results in 1977

Assets	
Cash and deposits with banks at maximum one month	24,689,357
Term deposits with banks	18,495,798
Deposits with non banking financial institutions	1,394,200
Bills and notes	2,273,184
Loans and advances	20,281,871
Securities	3,329,300
Fiduciary accounts	3,365,915
Miscellaneous	1,404,856
Fixed assets	1,779,288
	77,034,509

Liabilities	
Current liabilities:	
— Banks	23,991,415
— Non-banking financial institutions	546,588
— Deposits	43,415,354
Miscellaneous	1,768,282
Fiduciary accounts	3,365,915
Shareholders' equity and borrowed capital	2,713,087
Available profit	243,868
	77,034,509

International services expanded

1977 was an eventful year for Banque Internationale a Luxembourg (BIL), Luxembourg's oldest bank, founded in 1856—and one of its largest and most active.

At the end of 1976, the Bank had taken decisive steps to expand its domestic and international operations by merging with and absorbing Banque Lambert-Luxembourg. Despite the problems and an initial burden of extra administrative costs inherent in a merger of this magnitude, BIL is glad to report satisfactory overall results for 1977. Total assets grew by about 10 per cent to over Lfrs. 77 billion accompanied by a corresponding increase in earnings.

In addition to its comprehensive coverage of the domestic market and the privilege to issue bank notes, BIL is expanding its international services. Operating in one of the world's foremost financial centers, the Bank offers a broad range of international facilities, including Eurobonds, syndicated Euroloans, security trading, foreign exchange and money market transactions, portfolio management, and domiciliation of foreign corporations and trusts. Through a far-reaching network of correspondents and its association with ABECOR—the world's largest banking group with assets exceeding US \$ 200 billion—BIL provides services worldwide.

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BELGIUM

WORLD BANKING XIII

Inflation kept under control

THE OUTLOOK for Belgium has in some vital respects much improved since the beginning of this year. The Belgian franc seems to have recovered from last autumn's nasty bout of speculation caused chiefly by the rise in the Deutsche Mark against the dollar and subsequent doubts about whether it could follow the German currency up. For the moment it is resting comfortably within its "snake" joint float margins. The National Bank has not only repaid all the short-term debt it incurred in late 1977 in supporting the franc but has also shown its confidence by progressively cutting its discount rate and rate on advances to 5.5 per cent—the lowest level since early 1973.

Keeping the franc tightly in the "snake" has undoubtedly been the major factor in reducing the rate of price increases. Inflation was down to 4.6 per cent in the first quarter of this year on an annual basis. Some VAT increases at the start of this year meant a slight rise on the 3.6 per cent annual rate recorded in the last quarter of 1977, but 1978 is expected to show a decline from the 6.3 per cent consumer price rise in 1977.

Slackening inflation is also the major factor in the National Bank's ability to cut its interest rates, though it is highly unlikely that it will be able to cut them any further without shaking confidence in the franc's present parity with the stronger "snake" currencies, the guilder and the D-mark.

Other reasons for optimism are less easy to quantify. They mainly consist of the National Bank's "synthetic curve" of leading indicators, which after declining for most of 1977 have shown a steady rise since October 1977. The precise value of this amalgam of indicators for any one month is questionable, but it is useful in showing the direction of trends among the expectations of Belgian business and industry.

The two main ingredients of the synthetic curve, which are surveys of domestic and export orders, are now much more positive than last year.

Nevertheless the actual level

of economic activity is not good by whatever yardstick measured. Industrial output, which actually fell 0.9 per cent last year, is not expected to do more than maintain its level this year. In answering recent questionnaires and polls Belgian businessmen have been saying they intend to increase investment this year. But there is little sign of them putting their money where their mouths are. Certainly Belgian banks have seen little call for investment credit from the private sector this year, and the level of investment credit given by the banks in September 1977 was only 0.8 per cent higher than a year earlier.

In theory lower interest rates should now stimulate demand for credit. But despite the National Bank's moves, long-term interest rates have remained obstinately high. Any increase in investment in any case likely to lag behind that in demand, and although super-market and car sales have stayed buoyant, overall demand has stayed fairly stagnant.

Jobless

Taking unemployment figures—a classic measure of economic activity—the picture is far from rosy. The number of jobless has come down from its post-war record of 304,000 in January to about 280,000 in May—about 5.9 per cent of the active workforce. But this drop is wholly artificial, given that since the start of the year some 28,000 mainly young people have been put to work in special Government programmes, in other words, without Government intervention unemployment levels would have gone even higher.

Another and equally worrying aspect is the lack of job opportunities. Last year, for instance, the average number of unfilled vacancies as a ratio of total unemployed was just over 1 per cent; back in 1970 it was as high as 35 per cent.

What impetus there is in the Belgian economy at the moment comes from a vastly increased State investment programme—

some BFr 205bn planned for 1978—41 per cent up on public investments actually realised in 1977. This investment effort, plus the special work creation schemes for the unemployed, were designed to counteract the curbs on private consumption through higher VAT taxes, and to attempt to reduce public spending on current account. As such it was designed to provide a balancing act between Prime Minister Leo Tindemans' dominant Social Christian Party, chiefly worried about inflation and high State spending and borrowing, and the second biggest coalition party, the Socialists, who are mainly concerned about unemployment and trade union reactions.

But falling inflation and slower economic growth have combined to reduce anticipated tax receipts, and more people without jobs has meant larger social security payments. Thus the current 1978 budget deficit is now likely to be BFr 55bn, or double the original forecast. Mr. Tindemans and his Social Christian colleagues seem to have taken this as a warning sign that a radical re-ordering of State finances was long overdue.

Concern over a situation in which, for instance, the public borrowing requirement amounted to 6 per cent of Gross National Product in 1977 has also been expressed by the OECD, which seemed to have expected Belgium from its recent exhortation that member countries should not be afraid to increase borrowing to offset the depression in their economies. It is the general consensus of Belgian banking and financial circles that the overwhelming slice of the bond market the State takes leaves little room for private borrowers and pushes up interest rates, while financing the rest of it through the banking system also fuels inflationary pressures.

So Mr. Tindemans has pledged that there will be no increase in the BFr 65bn current budget deficit, that the Government will present to Parliament by the end of May a broad package of long-term expenditure cuts, and that the first fruit of this

will be seen in the 1979 budget in which spending will rise by less than the estimated rise in the GNP in that year.

Not surprisingly this has led to tensions with the Socialists and the trade unions, who fear that Mr. Tindemans and his Centre-Right party want the cuts to bear disproportionately on the social sector and argue that the Government should instead crack down on tax evasion and close tax loopholes which allow the well-to-do to pay less tax than they ought to. Tensions within the coalition are compounded by threats from some of the smaller parties, notably the Brussels-based Francophone FDP Party, that they will not be associated with unpopular spending cuts unless progress is made on the issues which interest them, mainly the present devolution plans for Belgium.

Industry in Luxembourg is in no better shape than that of Belgium. It would be odd if it were, given the extent to which both depend on the stricken steel sector. But the Grand Duchy's finances are much healthier, and the reason is the booming banking sector, with its heavy involvement in the international Eurobond and Eurocurrency markets.

The balance sheet total of the Luxembourg-based banks has risen from LuxFr 50bn in 1965 to LuxFr 2,115bn (\$64bn) last year. Even more striking is that the ratio between the banks' balance sheets and Luxembourg's Gross National Product has increased from about 1 to 22 between 1960 and 1977, while the corresponding ratio in its neighbour has only risen from 0.5 to 1.2.

Happy

Luxembourg Finance Ministers in recent years have made the happy error of underestimating the amounts of taxes brought in by the financial sector, which now includes some 90 banks. This has helped to cover the country's small payments deficit, to meet the shortfall caused by lower taxes from industry and put the overall balance of payments into the black by about LuxFr 10bn last year.

Flexible banking rules and lack of any central bank-imposed requirements have been among the factors attracting foreign banks to the Duchy. Nevertheless, without scoring off any of the foreign business, the Government and banking authorities have recently been trying to improve the solidity of the management of the Duchy's banks. Mr. Pierre Jaans, the Banking Commissioner, says that over the past year total banking business has increased by 16 per cent, while reserve backing has grown by 23 per cent.

Banks have temporarily been encouraged to forego dividend payments to their parents abroad, so that their average ratio of paid up capital to third-party debt rose from 3.5 to 3.8 per cent. (The legal minimum is 3 per cent.) Parent banks have also been encouraged to make the day-to-day manager of their Luxembourg subsidiaries an ex-officio member of the local board, a move that increases the Luxembourg authorities' legal control over him.

There is a new addition to the range of services offered by Luxembourg banks—gold. Last December Parliament repealed the VAT on physical transactions in the metal. Mr. Jaans stresses that the aim is not to rival the major European gold centres of London and Zurich, with their daily gold fixings and large networks for secure handling of large gold shipments, but rather to let banks in the Duchy provide a modest additional service to companies and their richer individual clients.

By a Correspondent

David Buchanan

IRELAND

CONTINUED FROM PREVIOUS PAGE

able 22 per cent, while the profit to assets ratio showed a much less satisfactory 1.1 per cent on assets employed. The banks' fortunes are also the Exchequer's because 46 per cent of profits are paid to the State in taxation.

The banks also refute any charge that they are less than wholehearted in their funding of Irish economic development. According to Allied Irish executives the banks have funds invested abroad but rather import funds for investment. They would argue rather that any shortfall in the private sector is due more to the growing proportion of resources swallowed by the Government and the public sector.

Indeed the two big Irish banks can lay claim to have presaged the Irish "economic miracle" of the sixties and early seventies. At the beginning of that period there were eight major banks operating in Ireland, all of which had been involved in fairly simple commercial transactions for over a century.

In 1966 a sweeping series of amalgamations took place leading to the emergence of the two major banks. The Bank of Ireland acquired first the Irish branches of the National Bank and then the Hibernian and National City banks. Allied Irish emerged as the amalgam of the Munster and Leinster Bank, Provincial Bank of Ireland and Royal Bank of Ireland.

So suddenly Ireland found itself served not by eight small traditional banks but by two major groups which rank in the top 200 of the world's largest banks. The other two smaller associated banks, the Ulster and the Northern, are subsidiaries of the National Westminster Bank and the Midland Bank.

These amalgamations made possible considerable developments in the role and operations of the Irish banks. There was rationalisation which made possible the closure of duplicated branches, although with one branch to every 3,000 of the population the Irish are still heavily banked.

The banks have also been able to cope with a much more intensive use of money generated by economic growth: the rate of turnover of funds on current accounts has increased by 600 per cent in the last ten years. The banks are big enough to adapt to computer

technology, although this is still at an early stage in Ireland. But executives are looking to the U.S., where the development of the credit card and the computer holds out the possibility of a cashless and chequeless society leading to large-scale electronic fund transfer systems.

The diversification into merchant and secondary banking has been even more significant. While the resources of the associated banks have increased almost fourfold since amalgamation, those of secondary banks have increased by a factor of 13. The finance and merchant subsidiaries of the two big banks now rank behind the associated banks themselves in size.

Arrival

The non-associated banks have assets of over £1.50bn compared with only £400m in 1971. The opportunity for further growth in these specialised areas has brought the arrival of some big European banks. Algemene Bank Nederland and Banque Nationale de Paris are among those already in the country and the Kreditbank is the latest to announce that it intends to open in Dublin, apparently with an eye to the secondary finance market.

American banks have been represented since 1965. Meanwhile the Irish banks themselves have expanded abroad. AIB now has 26 branches in Britain and Bank of Ireland 15, and both have international money offices in London. Both appear to have had success with their British operations and according to reports British customers have sometimes found the Irish banks lend a more sympathetic ear to their requirements than their native banks.

The real benefit and purpose of the banks' rationalisation was the need to finance Ireland's industrial and agricultural development during the period. It is interesting to note that, perhaps as a throwback to their origins, the associated banks still lend the biggest slice of advances—24 per cent—to agriculture, while 30 per cent of the non-associated banks' advances go to the manufacturing sector.

Even so, it is the associated banks, because of their larger size, which are the major source of funds and they have specifically utilised the incentives to

industry provided by the Government to put together cheap finance packages for export companies setting up in Ireland. These make use of the fact that export companies setting up in Ireland pay no tax on the value of their exports. A company therefore cannot claim any further tax relief to which it may be entitled, so the relief is passed to the bank which can offset it against its own profits.

Leasing finance produces the most spectacular results but the amount of investment which can be financed under this system is limited. More usual is a combination of leasing and redeemable share preference finance, and in a typical package a saving of 4 per cent on the overdraft rate can be achieved.

The Irish banks have also pioneered the term loan system in an attempt to provide industry with project funds to cover short- and medium-term needs. Over half the lending of the associated banks is now on this basis—an interesting difference from Britain, where the banks are only beginning to move in this direction.

The banks have also moved into the provision of longer term funds, particularly to meet the needs of agriculture and latterly housing. In both fields the banks are now lending for 20-year terms.



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GIROZENTRALE

April 6, 1978

In 1977, the twenty-first fiscal year of the Gottthard Bank, total assets reached a level of Fr. 1.975 million, which represents an increase of Fr. 143 million or 8% over the preceding year. Net profit increased 10%, rising from Fr. 18.2 million to Fr. 20.1 million. Capital funds increased 16%, from Fr. 181.2 million to 211.3 million, of which 135 million are reserves.



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Some changes for the better

HAVING BEEN buffeted by three bank collapses in the first three months of the year, the Spanish banking system now feels much more at ease in coping with the problems of a depressed economy and tight money supply. Predictions are still unreliable but it seems that the most difficult period, which lasted from October through to February, is over. In particular the Bank of Spain believes that further bank collapses are unlikely, and, if such an occasion arises, that it is now in a much better position to take the correct remedial action.

The causes of the bank collapses had some common features with the crisis in the British secondary banks in the early 1970s. But in general, the causes were a product of the Spanish banking system—a proliferation of small banks and lax controls. Of the 100 banks in Spain, the big seven (Banesto, Bilbao, Central, Hispano-Americano, Popular, Santander and Vizcaya) account for over 60 per cent of all deposits—while the bottom 30 account for no more than five per cent of total deposits in the system. The three banks which collapsed were all small local or regional ones. A more significant feature was the inexperience in banking activity of their main shareholders, all of whom had bought into the sector within the last five years.

Thus when money became tight last autumn, small inexperienced banks which had been competing for deposits with attractive (and often illegal) interest rates were squeezed.

The most spectacular collapse was that of Banco de Navarra which forced the Bank of Spain to intervene in January. A Bank of Spain official and two administrators are still sorting through the bank's tangled web of financial dealings, but total losses are expected to be over \$60m. of which two thirds are debts on the inter-bank money market. The Bank of Spain intends to wind up Banco de Navarra's affairs and has refused to refloat the bank. The Navarra collapse directly affected another small commercial bank, Cantabrico, which was taken over by a specially formed "bank hospital" whose Pta 500m (\$6.2m) capital was subscribed 50-50 by the Bank of Spain and the entire banking community. This bank too may be wound up eventually—while the third bank affected, Meridional, also taken over by the "hospital" is expected to be refloated.

The Bank of Spain has been torn between the need to bolster confidence in the banking system and a desire to avoid propping up those banks whose management clearly deserves no support. The bank hospital, the Corporación Bancaria, was a

stop-gap measure necessitated by the previous lack of proper authority lodged with the Bank of Spain. But for two months now the Bank of Spain has acquired wider powers both to inspect banks and to intervene if it is not satisfied with the accounts. Thus the need for such an institution has been eliminated, at least in theory. "The bank hospital is a hospital with only two beds," a senior Central Bank official commented.

Collapses

One consequence of these bank collapses has been a switch of deposits away from the small banks to the larger and better known national operations. This trend has been evident both in time and sight deposits as well as foreign currency deposits. In the first three months of 1978 deposits in the small commercial banks declined by 10 per cent. Only part of this decline could be attributed to a withdrawal of savings to meet outstanding obligations and the difficulty of small customers in obtaining credit. Significantly, too, the four foreign banks operating in Spain saw their deposits increase by over three per cent during this period, the highest increase among the banks, suggesting greater confidence in outside institutions.

In turn the present recession is tending to consolidate the

position of the big banks, perhaps an inevitable result of the big banks possessing greater resources and more advanced management. There are still too many banks in Spain and it is only a matter of time before the number is reduced. The process of consolidation has been evidenced by a series of important mergers since December. The main ones have been the merger of Coca with Banesto and Madrid with Banesto, thus ensuring Banesto's position as the largest banking group in Spain—and the merger of Iberico with Central—the second largest group. In all three cases the main motive appears to have been the desire by a family with a controlling stake (Coca in Banco Coca, Fierro in the case of Iberico and Castell in Madrid) seeking to ensure greater security for the future by trading in their equity for a stake in a larger bank. More of this is expected in the coming year. There is also room for a number of mergers between the small and medium sized banks.

Such consolidation is a healthy sign. Nevertheless it is worth underlining that the mergers have not always been conceived in a very organised manner with the respective interests of the banks dovetailing. For instance Banesto hurried through its merger with Coca once it learned that its will be able to deal in foreign currencies.

with its merger with Iberico. The value from such mergers will only begin to be felt once more psychological, at least at interest rates, a move which the institutions are fully merged. So far this is not the case.

Consolidation has also been accelerated by the prospect of the government permitting foreign banks to operate in Spain. This measure has been under consideration for two years but so far the government has demurred, concentrating on more important economic decisions. The necessary decree is now unlikely to be ready before the summer, even though officials say that the main principles have already been accepted. The first basic principle is that of the 60-odd applicants, only a few—perhaps no more than ten—will initially be allowed to operate. The second principle is that these banks should have an obligatory capital requirement of Pta 750m. (the same figure for Spanish banks). Initially there was talk of a Pta 1,500 requirement—the obligatory level of capital and reserves for the Spanish banks, but this has been discarded since such a requirement would have inhibited all but a few of the applicants. Still unresolved, it seems, is the proportion of activities permitted in pesetas and the extent they will be able to deal in foreign currencies.

The stimulus and competition provided by the presence of foreign banks is expected to be more psychological, at least at interest rates, a move which the institutions are fully merged. So far this is not the case.

Two other factors are also going to have an important influence on the banking system in the future—the enlarged role of the savings banks, the Cajas de Ahorro, and the liberalisation of interest rates. The Cajas de Ahorro play the same kind of role as building societies in Britain but their position within the banking system itself is considerably more substantial. The Cajas account for just over 30 per cent of the banking system's deposits. Regionally based and established as non-profit making institutions designed to attract and assist the small saver, these institutions have shown themselves extremely aggressive and in the past two years their growth has been more dynamic than the commercial banks. Since 1976 their deposits have increased at an annual average of 21 per cent compared to under 18 per cent for the commercial banks. Recently they have been allowed to discount commercial paper

and to trade in foreign currency. Last July the Government decided to begin liberalising interest rates, a move which affects both the commercial banks and the Cajas. Traditionally the banking system has been obliged to set aside an exceptionally high proportion of deposits for state-selected investment, in addition to that portion normally placed with the Bank of Spain. Such a practice acquired the name of the "privileged circuits" because of the privileged position of the recipient who had access to funds at rates of between 4.5 per cent and 6.9 per cent. The de Ahorro, and the liberalisation of interest rates, the Cajas de Ahorro play the same kind of role as building societies in Britain but their position within the banking system itself is considerably more substantial. The Cajas account for just over 30 per cent of the banking system's deposits. Regionally based and established as non-profit making institutions designed to attract and assist the small saver, these institutions have shown themselves extremely aggressive and in the past two years their growth has been more dynamic than the commercial banks. Since 1976 their deposits have increased at an annual average of 21 per cent compared to under 18 per cent for the commercial banks. Recently they have been allowed to discount commercial paper

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Liberalisation

These high proportions of state directed investment are being gradually reduced—though not entirely eliminated. For instance the Cajas will have to set aside reduced to 35 per cent by 1983. In the case of the commercial banks the proportion is being cut by a quarter of a point every two months to an eventual 21 per cent. The reduction in the availability of cheap credit has permitted the realignment of the overall interest rate

structure and for the first time official credit institutions like the mortgage bank will be made to raise up to one-third of their credit needs on the open market.

The effect on these various changes will take time to absorb, and will be conditioned in no small measure by the overall performance of the economy. Using monetary instruments as the main tools of economic control, the authorities have succeeded in curbing the growth of money supply and will, on present predictions, comfortably attain their target of a 17 per cent ceiling on the increase in money for 1978. If the recession does not bottom out soon, the increase will be slower, although the authorities have already provided for a 2.5 per cent band on either side of the target. But this has acted as a sharp dampener on demand and new investment is very sluggish.

In the first three months of the year investment grew only 1.3 per cent, just over a third of the pace of the same period in 1977. In fact the banks have the funds but are finding it difficult to drum up clients. Every one is waiting for signs that industrial inventories are beginning to be built up again. So far there is no indication, in the meantime the authorities, faced with depressed domestic demand, are making a major effort to stimulate exports by doubling the availability of export finance, largely through the state-controlled Banco Exterior.

Robert Graham
Madrid Correspondent

PORTUGAL

The year of economies

SINCE TAKING office in January, the governmental alliance of Socialists and Christian Democrats in Portugal has seemed prepared to adopt a much more realistic attitude to the deep economic problems facing the country. As the new Minister of Finance and Planning, Dr. Vitor Constancio put it: "If 1977 was the year of politics 1978 must be the year of economies." The political bickering and indecision that preceded the downfall of the minority Socialist Government in December and characterised the month and a half interim period that followed, is believed to have cost the country an extra \$350m in budget deficit through uncollected taxes and inept administration.

Last year's trade figures put into sharp relief the magnitude of the problems faced by Dr. Soares' new Government. As a result of a relatively higher growth rate (6 per cent) during 1977 than economic circumstances warranted Portugal's trade deficit grew sharply to \$2.73bn, representing a more than 50 per cent deterioration compared to 1976. This trade imbalance was reflected in a worsening payments position. The current account deficit is now estimated to be \$1.5bn compared to \$1.2bn in pre-revolution days. The situation would have been still worse had the country not experienced marked improvement in its two vital sources of foreign exchange. Gross tourist revenue rose by 60 per cent from \$256m in 1976 to \$410m in 1977. Net tourist revenue totalled \$279m in 1977, representing a 94.1 per cent increase over 1976.

During the same period expatriate remittances rose by 63 per cent to \$1.1bn. Nevertheless Portugal has had to resort to borrowing from abroad, and also to running down its foreign exchange and gold reserves—what economists here refer to as the country's "last line of defence" against total bankruptcy. Bank of Portugal officials estimate the country's outstanding debt to be just below \$5bn mark. Gold reserves during the past year, sold or mortgaged, have fallen from 857 tonnes to 741 tonnes. Foreign currency reserves have fallen from \$260m to \$111m.

Faced with this situation the Portuguese Government had no choice other than to accept the conditions laid down by the International Monetary Fund. Differences which had existed between Portugal and the Fund last year were this time round considerably ironed out by the Portuguese Government's evident desire to put its house in order before the talks had been officially concluded. The budget presented to Parliament on March 15 last

and approved a month later, introduced tough disciplinary measures known to be favoured by the Fund. These involved tighter control of public and private spending through increased direct and indirect taxation. This year's tax increases—10 per cent on ordinary income-tax and estate duties, 15 per cent on capital gains, 20-30 per cent in sales tax and heavier duties on cinema and theatre tickets and tobacco are expected to bring in over 40 per cent more tax revenue than last year.

Difference

At the beginning of April the Government bridged a major difference with the Communist-dominated trade union movement after more than two months of negotiations. Union leaders accepted a 20 per cent wage ceiling in return for adequate increases in pensions and unemployment benefits, which are still among the lowest in Europe.

The timing of the announcement on a wages policy, coming as it did just before the implementation of further austerity measures, suggested that the Government had handed a sop to the Communists in return for restraint during the coming months. For the governmental alliance of Socialists and Christian Democrats the agreement represented a major psychological victory over those who thought that its inherent conservatism would lead to open confrontation with the unions.

In fact, despite occasional isolated strikes such as the series of stoppages at the important ship-repairing yard of Lisbon in January, Portugal has experienced a remarkable measure of industrial peace this year. According to Government figures absenteeism this year has fallen from 25 to 5 per cent.

The adoption of a tough budgetary discipline and a strict wages policy was followed at the beginning of this month by the Bank of Portugal's announcement of a 6.5 per cent devaluation of the escudo as a further measure designed to ease the country's balance of payments deficit. Following the 15 per cent devaluation last February, the latest change is expected to make Portuguese exports more attractive to overseas buyers and boost revenue from tourism and expatriate remittances still more.

The fact that the devaluation was formally announced by the Bank of Portugal before any formal comment had been made by the Government on the agreement reached with the International Monetary Fund shows the increasingly central role being played by the Bank in the present drive towards solving the country's economic problems.

CONTINUED ON NEXT PAGE



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Recently we celebrated the 40th anniversary of Girozentrale Vienna. We know 40 years is nothing to be particularly proud of. Many fellow institutions were founded at least 100 years ago. Some even pride themselves on being centuries old. But despite our youth we have become well established in the international banking community. We would like to declare how grateful we are to all

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Difficult period ahead

AUSTRIAN ECONOMIC policy this year is faced with the two-fold and difficult task of maintaining a restrictive course in monetary and fiscal policy while at the same time protecting full employment and stimulating investment designed to improve the industrial structure. This is a new situation for a country so long accustomed to record-breaking growth rates.

Between 1970 and 1977 Austria's GNP in real terms was rising at an annual rate of 4 per cent, compared with the OECD-Europe average of 2.5 per cent, and was the third fastest growth rate recorded within the OECD. Inflation at 7 per cent, per annum was below the average rate in the West. With unemployment last year averaging 1.8 per cent, Austria's record stands up well when compared with the rest of Western Europe.

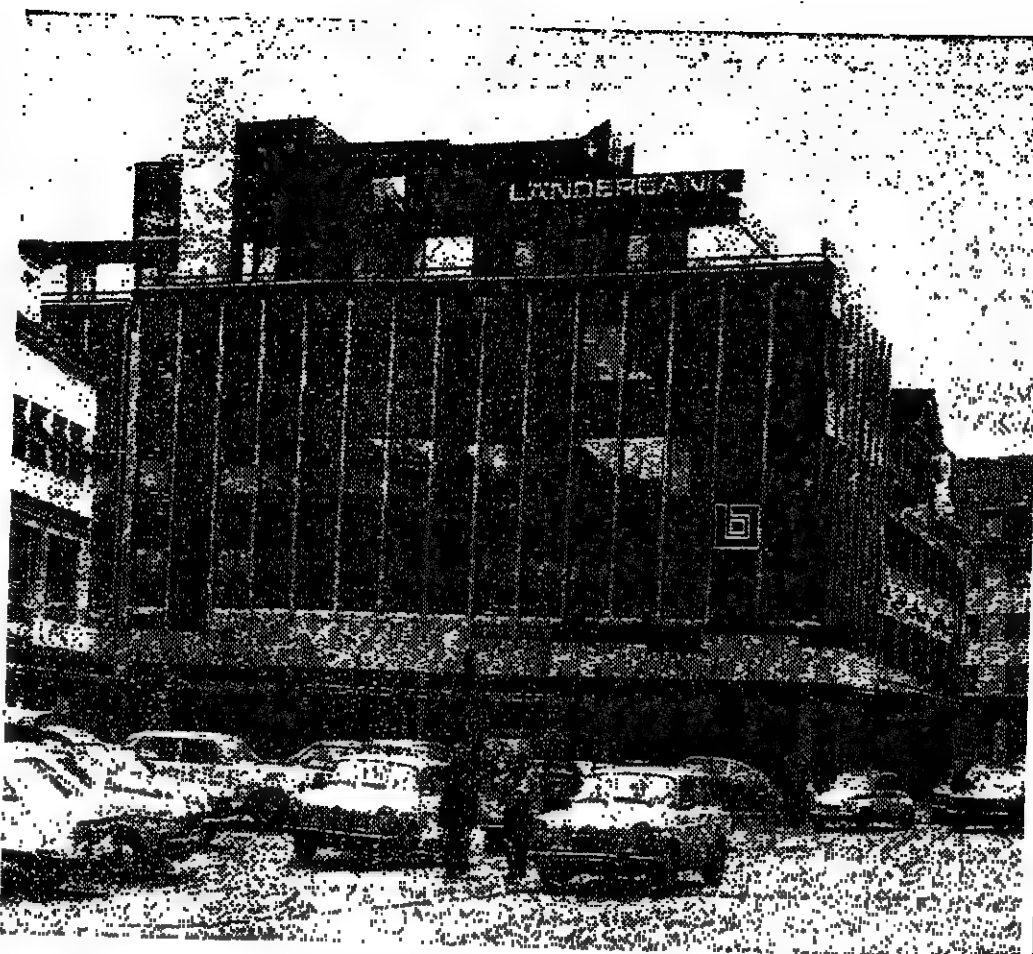
But the price paid in the form of an exceedingly large balance of trade and current accounts deficits on the one hand and a steady rise in the federal budget deficit on the other proved too high, posing a long-term threat to the very foundations of Austria's post-war economic miracle. The Government introduced a package of restrictive fiscal and monetary measures aimed at reducing domestic demand and the current account deficit—which last year even on an adjusted basis (i.e., excluding leads and lags to the staggering and unexplained total of Sch.20bn.) reached Sch.28.9bn. (about £1.03bn). Though the latest forecast of the Institute for Economic Research indicates that the current account deficit should fall this year by Sch.10bn., both the Institute and the new President of the Nationalbank, Professor Dr. Stephan Koren, are in favour of sticking to the restrictive policies—at least for the time being.

Clamour

It is against this background that the clamour for easing of the liquidity squeeze must be seen. Austria's economic growth dropped from 5.2 per cent. in 1976 to 3.5 per cent. last year and is expected to reach only 1.5 per cent. this year. The rapid growth of the external deficit and indebtedness was the result of excessively high wage increases and expansive budget policies coupled with premature announcements about the impending increase of the VAT on consumer durables from 18 per cent. to 30 per cent; the latter gave an enormous push to demand. The combined measures in monetary and fiscal policies will need to be supplemented by restraint in incomes policy this year.

Although the inflation rate has fallen on a year-to-year basis measured in terms of the consumer price index it has fallen from an average of 7.3 per cent. in 1976 and 8.5 per cent. in 1977 to 3.8 per cent. in both February and March this year, it would be clearly premature to switch from a restrictive to an expansive monetary policy. Meanwhile the Government has given the go-ahead for a large-scale investment drive, backed by interest relief.

Paradoxically, the long delay in revealing details of the measures helped to engender stagnation at the very time when the economy needed stimulus. In a country with one of the largest nationalised and public



The Laenderbank branch at Dornbirn.

sectors in Western Europe the steady expansion of subsidised credits contributes to a distorted structure of the capital and money markets.

Moreover, this tendency, as pointed out recently by Dr. Karl Pale, Director-General of the Girozentrale, places the small and medium sized companies at a disadvantage vis-à-vis the large groups when it comes to industrial finance. Without changes in the fiscal treatment and legal provisions concerning capital issues the access to risk capital is bound to remain difficult he stressed.

There can be no doubt that the latest investment promotion measures, coming at a time of serious problems in the economy, will accelerate rather than retard the trend towards growing State, and thus, implicitly, city political influence, even over the nominally still private industrial sectors. It is against this creeping socialisation that Mr. Rudolf Sallinger, chairman of the powerful Federal Chamber of Economy, warned in a recent public statement, adding that the latest investment promotion measures merely return a part of the money taken from the business community only a few months ago by way of increased company taxation and other fiscal levies including the controversial transport tax.

Nothing could indicate more clearly the difficulties of equity financing than the fact that last year only four companies managed to raise a mere Sch.100m. According to a survey compiled by Girozentrale, only 7.4 per cent. of the capital raised during the period 1967-73 by 26 selected companies which accounted for 74 per cent. of the capital of quoted companies.

That is the reason why respected bankers led by Dr. Heinrich Treibl, chairman and director-general of Creditanstalt, Austria's biggest bank, so strongly insist on action against the fiscal discrimination against the equity capital. The latest moves by the Nationalbank (the cen-

THE MAIN BANKING INSTITUTIONS

(End-1977; figures in brackets 1976)

	Assets (Sch. bn.)	Employees
Creditanstalt	133.0	6,032
Girozentrale	(107.2)	1,410
Laenderbank	(88.9)	3,183
Zentralsparkasse	(66.4)	2,189
Postsparkasse	(55.8)	1,691
Genossenschaftsbank	51.7	673
Zentralbank	(43.5)	1,782
Erste Oesterr.	42.0	231
Spar-Casse	(36.5)	1,210
Kontrollbank	(42.3)	399
Bank für Arbeit und Wirtschaft	(30.7)	
Volksbanken AG	20.6	
	(17.5)	

tral bank), including open market operations to the tune of Sch.4bn., expansion of refinancing facilities for exports and the reduction of the "penal rate" on the non-fulfilment of minimum liquidity ratios from 5 per cent. to 2.5 per cent., should contribute to a long-overdue reduction of excessively high interest rate levels.

As a result of the liquidity squeeze last year the call money rate rose from 6 per cent. to 9 per cent. by the end of 1977 and yields in the bond market were 3 per cent. over those in West Germany. Since the end of the first quarter of this year financial commentators have begun to note what appears to be the beginning of a downward trend.

Thus by the end of April bond yields had fallen from 8.29 per cent. to 8.16 per cent. and on the secondary market from 8.8 per cent. to 8.36 per cent. The prime rate on commercial credits is currently from 9.5 per cent. to 10.5 per cent. while consumer credits cost between 11.5 per cent. and 12 per cent. However it is now predicted that interest rates for long-term credits will fall by the summer

by a further half to three-quarters per cent.

With inflation at 4 per cent., fixed interest securities have become exceedingly attractive. Those bought under the fiscal privileges granted to small investors up to an annual limit of Sch.100,000 per head produce currently a net yield of almost 6.5 per cent.

The general economic and financial situation and the provisions of the new banking law have combined to give a powerful thrust to competition in the small world of Austrian banking. The projected legislation will replace provisions dating back to 1939 and provide for a strengthening of bank secrecy.

The institution of the anonymous savings account, providing for a tax-free income (nominally at 4.5 per cent. but in the case of larger deposits yielding up to 8 per cent.), and of bearer securities remains under Dr. Kreisky's moderate Socialist Government more than ever a prop to capital formation. The law also provides for improved protection for private depositors and the institutionalisation of "lifeboat" funds to protect depositors in any troubled bank.

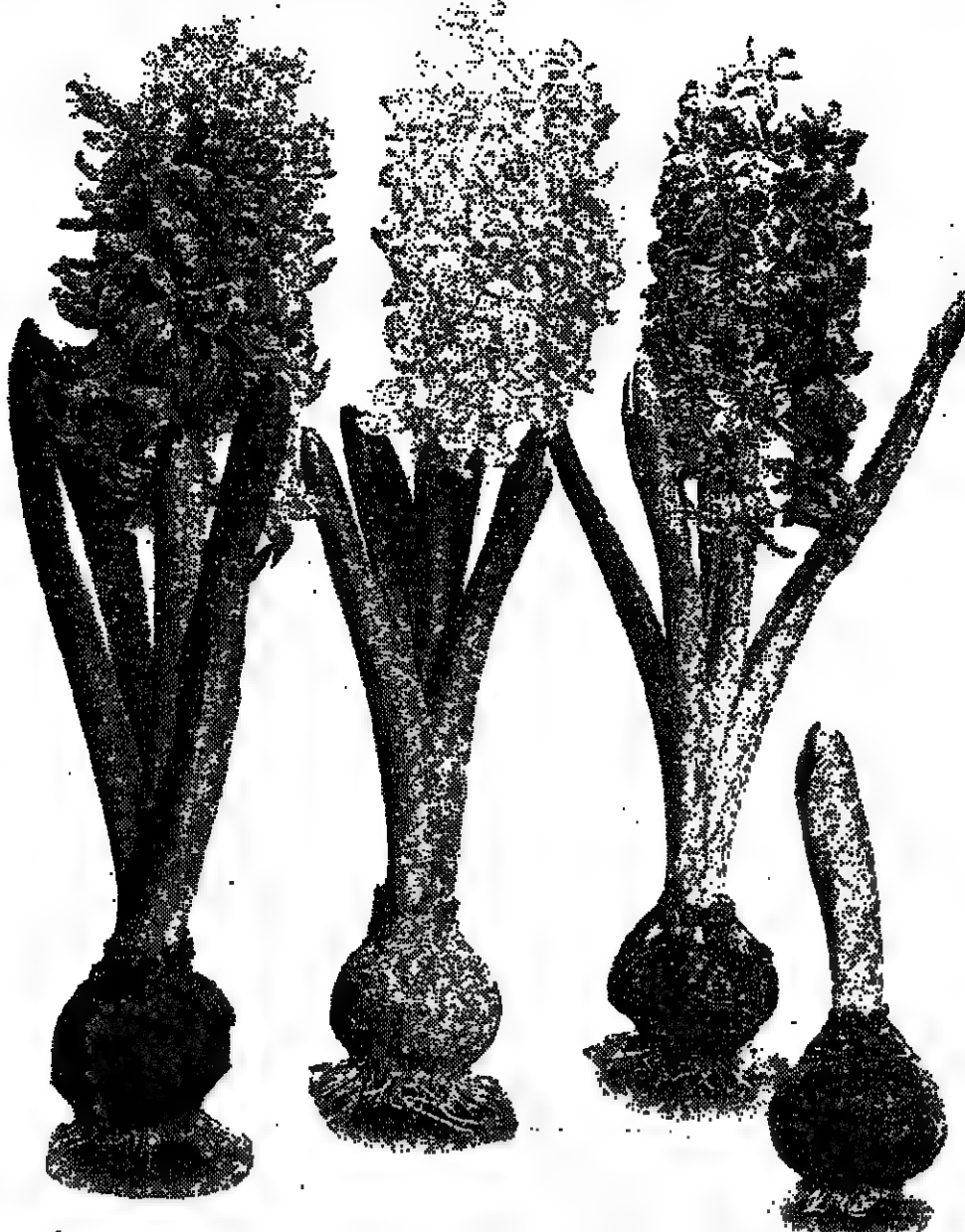
But the main effect of the new legislation will be to sharpen competition between the various sectors of banking and to accelerate the trend towards universal banking. The main competitors are the commercial banks, the savings banks, and the farmers' co-operatives. There is, however, also a new situation within the individual sectors. The two large Vienna savings banks, Zentralsparkasse and Erste Oesterreichische Spar-Casse, now have their own merchant bank outlets. Furthermore, they are no longer regionally restricted to Vienna.

Oesterreichische Laenderbank, under the new leadership of Dr. Wolfgang Erndl, has embarked on a merger of its 18 outlets which henceforth will operate under the name of "Merkur" bank. Dr. Erndl has also given public notice of his determination to merge OECI (Oesterreichisches Credit-Institut), which is wholly owned by Laenderbank, with the parent company in order to rationalise and to improve business operations and administration.

Under the new regulations, codified also in the banking law, the opening of new bank branches has been fully liberalised. Since last summer 754 new applications have been granted (the total of existing branches is about 4,000). Some bankers privately warn that Austria is in danger of becoming "over-banked," but it is too early to assess the implications of the new law.

And what about the Austrian schilling? The new President of the Nationalbank in his first public statement came out unequivocally in favour of maintaining the strength of the schilling, while resorting primarily to restricting demand and prompting structural changes in order to re-establish the external account equilibrium. The future of the schilling depends on incomes and budget policy. Last year the weighted average of appreciation of the schilling was 6.6 per cent. and the effective rate of exchange in March 1978 was still 4.8 per cent. up on last year.

Dutch imports: Dfl. 111,920 million.
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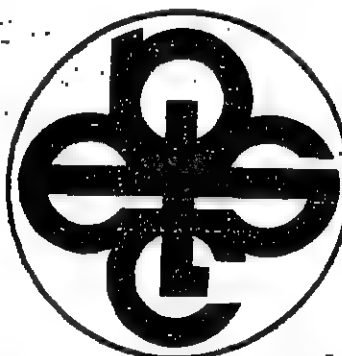
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PORTUGAL

CONTINUED FROM PREVIOUS PAGE

lems. The support which the Bank has been forced to give the flagging Portuguese economy has virtually made it the nerve centre of the whole Portuguese banking system.

Monetary instruments are a key element in the Government policy, and it is in this context that the Bank of Portugal earlier this month issued credit restrictions and more selective credit controls. On May 5 it announced that its discount lending rate would be raised from 13 to 18 per cent. Accordingly the interest rates on most of the bank's credit operations have also been increased by 5 per cent.

Nevertheless, within the general outlines of the credit squeeze laid down by the Bank it has been emphasised that a high degree of selectivity both with regard to sectors and towards individual banks would continue.

There are special premium deductions, for example, for the financing of companies fears are perhaps exaggerated. Much has changed since 1975, difficulties but which are considered to be "technically and economically viable," and also banks themselves might be for the financing of primary in-

dustries like agriculture and fisheries, and exports. The Bank has managed to include the construction business within the category of a labour-intensive activity, and this too will be affected by special premium deductions.

Clearly, in the uncertain atmosphere surrounding the Portuguese economy the banking system will play an increasingly crucial role, because beneath the general credit outlines laid down by the central bank it is up to the individual banks to decide who deserves a "life-line" during the tough times ahead.

Insist

The Confederation of Portuguese Industry (CIP), which claims to represent over 35,000 private companies, continues to insist that so long as all the Portuguese banks are nationalised, the private sector will be discriminated against.

In present-day Portugal such differences are perhaps exaggerated. Much has changed since 1975, difficulties but which are considered to be "technically and economically viable," and also banks themselves might be for the financing of primary in-

State capitalism. Today most banks have recovered the management existing before the revolution and the bank unions once dominated by the Left have only recently elected as their leaders members of the Centre Right Social Democratic Party (PSD).

Portuguese bankers generally recognise that they are now almost as free to compete with each other as they would be if they were still in private hands. In the case of foreign trade finance they can still seek the markets they wish.

What remains to be seen is whether in the difficult period that lies ahead the country as a whole can accept the sense of balance that has been re-established within the banking sector. Four years after the revolution, Portugal's capacity to survive remains naturally enough dependent on the capacity of unions and management to bury their differences and heed the Minister of Finance's blunt warning that the economy comes first.

Jimmy Burns
Lisbon Correspondent

Paul Lendvai
Vienna Correspondent

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SWEDEN

Slow recovery forecast

DEVELOPMENTS DURING the first quarter of this year suggest that the downturn in the Swedish economy has probably hit bottom and is moving into a slow recovery. The favourable signals have come from the foreign trade front. The order books of the export companies have started to rise, although the improvement does not extend to all branches. Even more positive is the switch in the trade balance to a SKr 2bn surplus for the five-month period to the end of March compared with a SKr 4bn deficit for the corresponding period a year earlier.

The trade figures are taken as showing the effectiveness of last year's krona devaluation. The gains, however, are being made from a very low level and the order books, particularly those of most engineering companies and the pulp and paper mills, are still insufficient to ensure a high level of capacity utilisation. No professional forecaster has yet predicted that industrial output, which has fallen for three years in succession, will increase this year.

Decline

The domestic market remains weak. Private consumption is expected to fall for the second year running, as is industrial investment. The decline in demand for imports, which have been running in recent months at a much lower level, has contributed strongly to the improvement in the trade balance. After the 3.5 per cent decline in GNP in 1977 - the first since the war - most 1978 forecasts anticipate a slight growth of perhaps 1 per cent.

The non-Socialist coalition Government, which pushed through the August devaluation and accompanying deflationary measures against the call for a more expansionary line from the Social-Democrat Opposition, is now scenting triumph for its economic policy. The abolition of the remaining 2 per cent employers' payroll tax from July suggests that it is even ready to ease its deflationary line. The current trend also indicates that it will succeed in holding price increases below the level at which under the 1978 central wages agreement the unions could ask for compensation.

The economic recovery will

have to be sustained, however, if it is to help the non-Socialists in the 1979 general election. The key question is whether the growth in export demand will be strong enough for the export industries to regain lost market shares. The devaluation and a fairly moderate wages settlement have improved the relative cost position of Swedish companies but it remains to be seen whether the improvement is large enough.

On the financial side prospects depend on two factors, the development of the payments balance with its accompanying foreign borrowing requirement and the budget deficit, which has reached unprecedented proportions. Since fiscal and monetary policies will be largely determined by the need to manage the two deficits, they will be central to the operations of the Swedish banks this year.

The payments deficit and the foreign borrowing requirement have been affected by one real and one mathematical change. The mathematical development is the reduction in the deficit estimates as a result of criticism of the Riksbank's statistical methods. The Riksbank, without following its critics the whole way, has conceded that it has over-estimated the deficit in the past. The real development is the unexpectedly swift improvement in the trade balance.

If the current trend is maintained the result of this twin development would be to cut the 1978 payments deficit from the Kr16.17bn (\$3.4-3.7bn) forecast in the national budget to less than Kr10bn. The net foreign borrowing requirement is assumed to be roughly in line with the payments deficit.

In 1977 Sweden took up foreign loans of around Kr 21bn, of which the state was responsible for Kr 8.8bn. It was assumed at the beginning of this year that in 1978 the State would be borrowing roughly the same amount as in 1977. This assumption may no longer be correct, even though the final figure will depend on how the budget deficit is managed.

In the revised budget the 1978-79 deficit has been increased from Kr 32bn, to over Kr 40 bn. The inflow of foreign currency into the reserves, which had risen from Kr 11bn at the time of the devaluation in

August to Kr 18bn in the middle of April, and the growth in the budget deficit have had a very powerful effect on the banks' liquidity since the autumn. The Riksbank has twice raised its demands on the commercial and savings banks' liquidity ratios this year.

It has also reduced its discount rate twice, by half a point each time, to the present level of 7 per cent. In each case it underlined that its action implied no change in its tight credit policy but was designed to adapt to the changed liquidity situation in the money market.

The decline in the short-term interest rate has not affected long-term rates. The widening of the interest gap is designed to switch funds from the short to the long-term market and facilitate the financing of the budget deficit. The increase in the banks' liquidity ratios is intended to have a similar purpose.

The sum of these measures is likely to be a boost to bank profits in 1978 despite the restrictions on their lending. Their placement, however, has been narrowed last year by the high discount rate, will be improved.

The banks have also been favoured by the abolition of the foreign business, which has returned on equity after tax - dropped from 13.1 per cent in 1976 to 12.4 per cent and in their annual reports most banks renewed their complaint that their earnings were not enough to compensate for the rate of inflation. This year prospects would seem to be brighter.

Last year the commercial banks increased their operating profits by 4 per cent, a smaller rise than has been usual in the 1970s. Moreover, this increase was attributable solely to the

growth in the volume of the banks' business, while the return on deposits available was some 20 per cent below the 1976 level.

Profitability - measured as a return on equity after tax - dropped from 13.1 per cent in 1976 to 12.4 per cent and in their annual reports most banks renewed their complaint that their earnings were not enough to compensate for the rate of inflation. This year prospects would seem to be brighter.

William Duffell
Nordic Correspondent

SINGAPORE

Offshore market shows the way

THE OFFSHORE market was the mainstay of banking activity in Singapore last year while domestic banking remained in the doldrums. The excitement lay in the Asian dollar market which continued to grow both in breadth and depth. This enhanced Singapore's image as a financial centre. Domestic banking on the other hand faced relatively quiet times, with local banks awash with funds and running over each other to find takers from the manufacturing and other sectors.

The Singapore economy grew by 7.8 per cent in 1977. The financial sector played a significant role in this growth with a contribution of 14 per cent to Gross Domestic Product. As the statistical measure used included insurance companies, the stock market and property as well as business services, the actual contribution of the banking sector was probably even higher since there were declines in both the stock market and private property development.

Money supply M1 grew by 10.3 per cent last year while M3, the broad definition, grew by 11.1 per cent. Of the 78 commercial banks operating in Singapore at the end of 1977, 13 are locally incorporated banks while the rest are foreign. On balance the influence of the foreign banks on the domestic market remains strong.

This was evidenced by the latest available figures for 1976. Total assets of the commercial banking sector grew by \$812.8bn or 25 per cent in 1976. The foreign banks were responsible for 83 per cent of the increase. At the time they controlled 81 per cent of total assets.

In fact Citibank's Singapore branch was the largest Singapore bank in terms of assets. However, local banks seemed to enjoy higher profitability with Overseas-Chinese Banking Corporation in the lead in 1976 with \$822m. This compares favourably with Citibank's profit of \$915m.

Sluggish

Despite the strong growth of the domestic economy last year, local banks did not have the best of times in profitability. With a highly liquid economy and loan demand growing at a slow pace, the banks were caught in an interest tunnel which was moving downwards. Gross domestic capital formation rose by a negligible 3 per cent last year compared to 10 per cent in 1976. With large deposit bases and manufacturing investment sluggish, it was inevitable that the locally incorporated banks had uninspiring performances.

The second tightening in the inter-bank market in the last two months of 1977 was eliminated when the Monetary Authority of Singapore introduced a new "swap" facility and injected \$8120m into the market. This has kept interest rates low and appears to fit the objective of making available cheap funds as an incentive for increased investment.

The authorities have also provided other incentives to boost economic expansion through monetary policy. While the manufacturing sector contributed less to economic growth last year, trade remains a pillar of the economy. The Monetary Authority reduced the rediscount rate for export bills from 4 to 3 per cent. Cheaper financing for exporters has encouraged more activity and the gross value of bills rediscounted rose to \$81.1bn - more than twice the \$45.2bn of 1976. Other schemes to help industry include ship financing and small industry finance schemes.

A major non-bank financial institution with strong growth is the Post Office Savings Bank, which has seen its deposits

rising 17 times from \$891m in 1971 to \$15.6bn at the end of January last. The strength of this institution is shown by the 1.38m accounts it has attracted in a population of only 2.2m. Besides a high level of efficiency in service which has attracted many depositors, this institution also enjoys the ability to give tax-free interest to depositors.

The profit picture is expected to look better this year. The authorities are considering alteration of the tax-free interest benefit enjoyed by depositors of the Post Office Savings Bank.

The businessman's budget announced in March last should stimulate the economy and the banks seem likely to overcome the pincers of high liquidity and low demand. There are signs that the interest tunnel has turned upwards to their benefit.

Several of the top local banks also have extensive banking operations in Malaysia. Malaysian assets accounted for between 23 to 38 per cent of their total assets. The strength of domestic demand this year is expected to generate increased loan activity and Malaysian operations are expected to contribute substantially to overall growth.

It is in the Asian dollar market, however, where the star performance is found. Volume crossed U.S.\$31bn at the end of 1977 despite soft loan demand

in international markets and the lack of volatility in world interest rates which has affected the level of inter-bank activity. The strength of the offshore market reflects several measures taken by the authorities to stimulate the market, as well as developments in the competing centres of Hong Kong and Manila. Earlier on the authorities had reduced the stamp duty on negotiable instruments from an ad valorem rate of 0.5 per cent to a maximum stamp fee of \$8500.

In July last year the concessional rate of 10 per cent on offshore income derived from the activities of Asian currency units was extended to cover more services provided by such units. These services include advising and confirming of offshore letters of credit, placements with non-Singapore borrowers and the financing and re-financing of offshore third country transactions.

The measures are geared towards more inter-bank activity in the Asian dollar market, development of a stronger primary market for syndications in Singapore, greater depth in the secondary markets for the syndicated instruments, initiation of more advisory services from Singapore and encouragement of more transactions in currencies other than the Singapore dollar. For some time it has been evident that Hong Kong has enjoyed a head-start on syndications; around 80 per cent of the Asian issues are believed to be syndicated there.

The big market makers in the Eurobond market - Salomon Brothers and Credit Suisse local banks will be encouraged to take on more offshore loans, in Hong Kong. In addition in doing so they will benefit from lower tax charges as a result of its operations in Singapore. One

Early this year banks were allowed to apportion their operating expenses in proportion to their total Asian currency unit income. This is a strong stimulus to the offshore market since local banks will be encouraged to take on more offshore loans, in Hong Kong. In addition in doing so they will benefit from lower tax charges as a result of its operations in Singapore. One

CONTINUED ON NEXT PAGE

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	1973	1974	1975	1976	1977	Balance sheet figures
in millions of guilders	166.3	185.2	224.4	244.1	328.1	Issued capital (including subordinated debentures) and reserves after appropriation of profit
	2,566.1	3,209.5	4,106.0	5,324.4	8,110.0	Borrowed funds
	2,573.2	3,083.6	4,100.1	5,485.9	8,095.4	Mortgages
	137.7	180.2	241.5	338.2	672.7	Building and other advances
	61.7	128.6	80.9	81.1	141.2	Building projects in hand less instalments invoiced
	23.6	41.4	56.1	66.1	202.8	Property let
	57.0	58.0	66.2	68.5	78.7	Property participations
						Results
in millions of guilders	41.1	46.0	53.1	73.0	114.2	Operating profit
	19.5	20.2	22.0	34.0	48.0	Taxation
	4.0	6.7	9.0	8.5	19.8	Provisions, etc
	17.6	19.1	22.1	30.5	46.4	Net group profit
	12.0	12.7	14.2	19.7	31.5	Profit retained
	5.6	6.4	7.9	10.8	14.9	Profit distributed
						Personnel and production
in numbers	331	375	455	513	642	Employees at end of year
	9,200	8,800	15,100	19,300	27,200	Mortgages concluded
	187	835	688	840	989	Dwellings completed
	1,174	37,007	15,942	6,437	29,350	Industrial premises completed, in sqm.
						Amounts per f 50 share
in guilders	28.76	30.94	34.25	45.77	63.25	Net group profit
	10.40	11.70	12.80	16.00	20.00	Divided*

* Dividend and interest from 1973 to 1975



Westland/Utrecht Hypotheekbank

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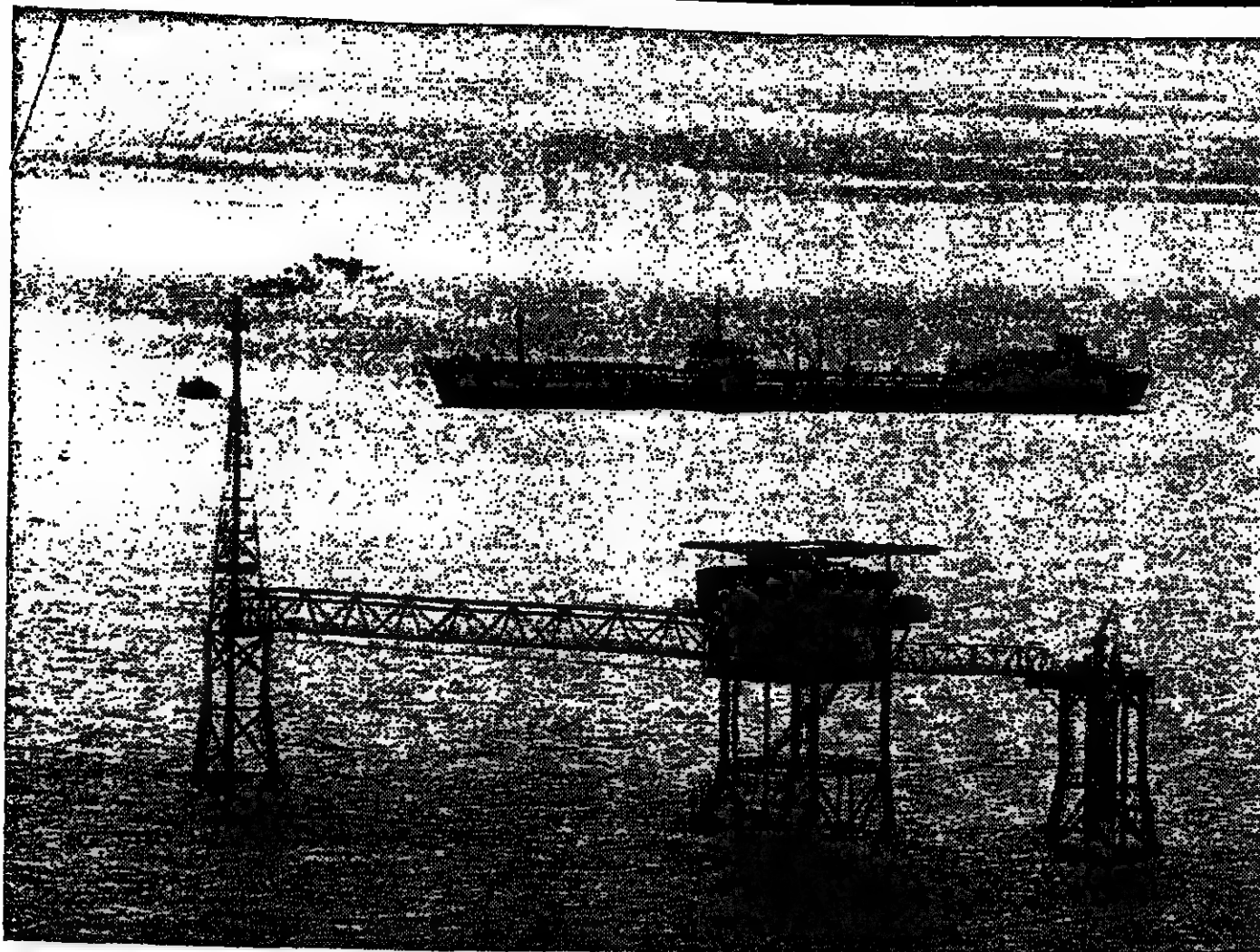
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DENMARK

WORLD BANKING XVII



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Restrictions prove unpopular

THIS YEAR will probably bring a small improvement in Danish bank earnings after last year's recovery from a disastrous 1976, when falling security values caused several banks to show losses. But the mood of the banks is nevertheless not particularly optimistic. They feel themselves hampered by unnecessary restrictions introduced by the politicians and are not too happy with the trend of earnings over the past five years.

For the big three commercial banks—Copenhagen Handelsbank, Danske Bank and Privatbank—operating profits before depreciation in 1977 were either lower than in 1973 or, in Privatbank's case, about 15 per cent higher. But in the same period total assets have almost doubled. The trend on earnings is reflected in share prices. Handelsbanken's fell from 205 at the end of 1973 to 129 at the end of 1977, Danske Bank's from 215 to 126 and Privatbanken's from 225 to 134.

Big swings in the net earnings of the banks are caused by the practice of booking unrealised gains or losses on security holdings as they appear on the final trading day of each year. Consequently the banks showed large net profits in 1976 and an even bigger drop in earnings in 1976, but Privatbanken pointed out in this year's annual report that only in one of the past five years have net earnings enabled the bank to consolidate its financial position after allowing for inflation. This is undoubtedly also true for the other main banks.

The banks attribute the deteriorating results partly to the generally difficult economic situation, in which a large current balance of payments deficit has forced the Government to allow interest rates to rise to a very high level. Interest rates today average about 14 per cent on bank advances and almost 17 per cent on mortgage bonds. But they attribute their difficulties also to political attempts to control

they will try something even more drastic next time.

According to this theory, supervision by the monopolies authorities will be used to introduce detailed controls of banking costs and hence also investments. It was in the spirit of this pessimistic scenario that Handelsbanken wrote in its annual report: "If banks are to perform their tasks, it is absolutely essential that the legislation enacted in coming years does not disrupt the free enterprise structure of the banking system and allow it to function on the principles of open competition."

The alternative view of the implication of placing the banks under the supervision of the monopolies authorities is that it is a face-saving formula for the politicians and that the banks will in fact be far freer to operate than at present. Only time will tell.

One of the unfortunate side effects of the spread legislation was to force up bank lending rates. Banks taking large short-term deposits on special terms from local authorities and large corporations at high interest rates dictated by tight liquidity conditions were allowed to include the interest rates on these special deposits in the calculation of the spread. Interest rates on these special deposits often rose to over 20 per cent. As a consequence interest rates on advances were automatically pulled up.

The Government at the end of last year proposed legislation setting a maximum interest rate on deposits of the discount rate plus 3 per cent, but the banks and savings banks instead made a voluntary agreement limiting the deposit rates to the discount rate (9 per cent) plus 4 per cent and the Government dropped its own proposal.

While the banks thus averted a new political intervention they—and especially the large banks—now find themselves facing a tricky liquidity situation. There is now a difference of about three-and-a-half per cent on the rate obtainable on bank deposits and the going

Liquidity

The M2 money supply rose by 9.8 per cent last year and the Government and the central bank, without announcing explicit targets, aim to keep the growth of M2 this year below the level of the increase in the nominal national income. Up to March they were succeeding. M2 was only 7.5 per cent higher than in the corresponding month last year.

It is possible, however, that in order to meet the liquidity needs of the banks the authorities will sell less debt paper. In March and April only deposits often rose to over 20 per cent. As a consequence interest rates on advances were automatically pulled up.

The external deficit was reduced to DKr 10bn last year from DKr 11.6bn in 1976 and the Government intends to bring it down to DKr 7bn this year, but the first quarter trade figures were disappointing and even the optimists now expect a 1978 deficit of DKr 7.5bn-8bn.

The current balance has been in deficit in every year since 1963 and the net foreign debt of DKr 51bn at the end of 1977 was equal to about 18 per cent of the Gross Domestic Product. A steady reduction in the deficit each year is therefore regarded as absolutely essential by the Government, and even with unemployment running at almost 10 per cent it is still prepared to squeeze the economy in order to bring about the improvement. The bond market is therefore convinced that there will be no relaxation of monetary policy, even if the squeeze on liquidity in some of the largest banks begins to hurt.

The possibility that the Hong Kong authorities might tax offshore transactions could well make the Singapore market even more attractive. All in all, bankers in Singapore should be laughing all the way to and from their offices.

Poh Thian Ser
Business Times, Singapore

Hilary Barnes
Copenhagen Correspondent



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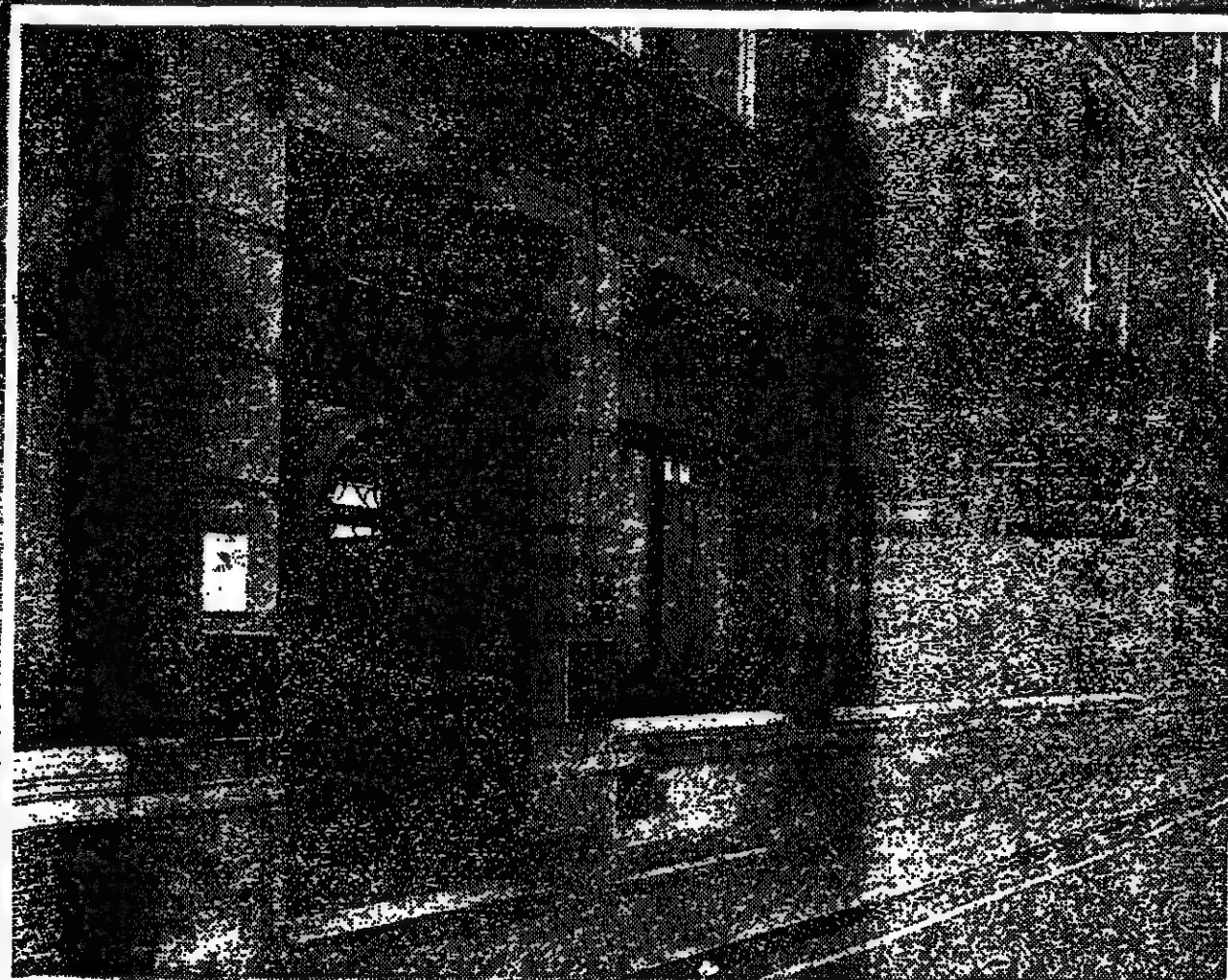
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SINGAPORE

CONTINUED FROM PREVIOUS PAGE

major American bank is believed to have decided last year that on balance its merchant bank would fare better in Hong Kong than in Singapore and has acted accordingly.

But Singapore may well have the last laugh. The incentives offered recently will make for happier times for those who have decided to stay in Singapore. Indeed, a major market maker, First Boston, opened an office in Singapore late last year.

The Asian dollar market has continued to grow since the end of 1977 and by April last, was standing at \$U.S.22.8bn. During the first four months of this year the volume of fixed-rate Asian dollar certificates of deposit floated by 20 banks have exceeded \$U.S.450m., representing a spurt in issuing activity. In addition, \$U.S.120m. of floating rate certificates of deposit have been issued by seven banks.

Secondary market activity has also picked up, with \$U.S.364m. of securities traded. This

augurs well for the market and may indicate better things to come.

In the foreign exchange market the average daily turnover is about \$U.S.1bn., compared with \$U.S.340m. three years ago. Loans have tended to grow faster than deposits and there is an increasing reliance on external funds.

Despite these elements of growth the offshore market in Singapore is still one-tenth the size of the London market and the volume of assets is only about 3 per cent of the total market in offshore dollars.

The potential for growth remains good. Communications are reliable, the economy remains on a growth path, political stability is in evidence, and Singapore remains committed to the development of the professional expertise and confidence required to build up a strong international financial centre. Just a few weeks ago the Finance Minister announced

YUGOSLAVIA

WORLD BANKING XVII

Radical changes in structure

YUGOSLAVIA'S complex banking system has just undergone a radical reorganisation along the lines laid down in the 1974 constitution and subsequent legislation.

Under this reorganisation the former large banks have been split up into several so-called basic banks which in turn have agreed among themselves to establish new groupings of so-called "united" or "associated" banks which are in some respects heirs to the former larger banks but in others are very different.

Each of the country's six grade bank and is now a basic very restricted delegated

powers.

Generally speaking united banks will have two main fields of activity: foreign banking transactions on their members' behalf and the pooling of resources for very large projects which an individual basic bank cannot finance itself. Where even a united bank cannot cope with the size of a project, consortia of banks have been envisaged.

United banks operate with resources—in local or foreign currency—which member banks put at their disposal. All the resources a united bank gets abroad have to be turned over to the member banks on whose behalf they were borrowed, or used for financing agreed projects with strict delineation of each member bank's share in them.

A united bank must not keep hold of resources of the member banks but has to use them to settle their outstanding liabilities abroad. In some cases a united bank may exceptionally take a short-term credit, say to overcome a liquidity squeeze. No matter what it does its members are liable for its obligations according to the terms of their agreement. Normally, a united bank has no funds of its own, and it does not deal with clients on its own behalf.

For the foreign partners of Yugoslav banks united banks will be the most conspicuous link in the banking system. They will mostly have contacts

with them as organisers of foreign operations for their member banks although there is no obligation on a basic bank to be a member of a united bank or to perform its foreign operations through it. But in practice this is likely to be the rule.

The most important financial institutions in Yugoslavia are the 160 basic banks. The philosophy of the Yugoslav economic system is that there should be a close link between production and banking with the producers having a decisive say in all matters and the banks providing the expertise. They should be managed by their members not too small for their leading potential to be inadequate.

Proportions

All this is easier said than done. In practice there still are many doubts as to the number of basic banks and their size. It seems that some of them are too big and should be split into several smaller basic banks, whereas some are of miniature proportions and should either merge or join bigger ones. In establishing basic banks ambivalence of local communities have often been playing an important role. Each town and commune wants its own basic bank not only for prestige but also as a vehicle to influence decisions of companies and banks. They will mostly have contacts

refrain from such behaviour.

The same holds good for united banks. Here it is the republics and provinces which want "their" united bank. Although the Yugoslav market is one and its unity is protected by law, and although all banks no matter where located may perform all banking operations all over the country, most think that it is wiser to have their own financial institution of the united bank type.

Sometimes attempts are made—short of directly breaking the law—to secure a monopolistic position for that institution in a given territory. The rationale behind it is that "foreign" banks, i.e. those from other parts of the country, do not pay the same attention to the needs of all regions where they operate but concentrate resources mobilised in various places to satisfy first the requirements in their own region.

There is some truth in this allegation. The explanation most often put forward is that the production sector has not yet gained enough control over the activities of the banks. Were that the case, the argument goes on, it would not be possible to use resources mobilised in one region to finance projects in another without the consent of the producers who would in most cases demand that the financial resources be used on the spot.

Therefore the campaign for strengthening the production workers' influence in the banks which started several years ago is still being vigorously pursued and will continue for some years to come until the banks are transformed not only in form but in substance to conform to adopted political decisions and philosophy.

The weakest and the least developed institutions are the so-called "internal" banks. They have been designed as the first link in the banking system. Their main task being to pool together the resources of a company's basic production units, the basic associations of labour (BOALs) for various aims like investment and over-coming cash flows problems in individual BOALs. They are in fact only quasi-banks, as they do not perform many banking operations.

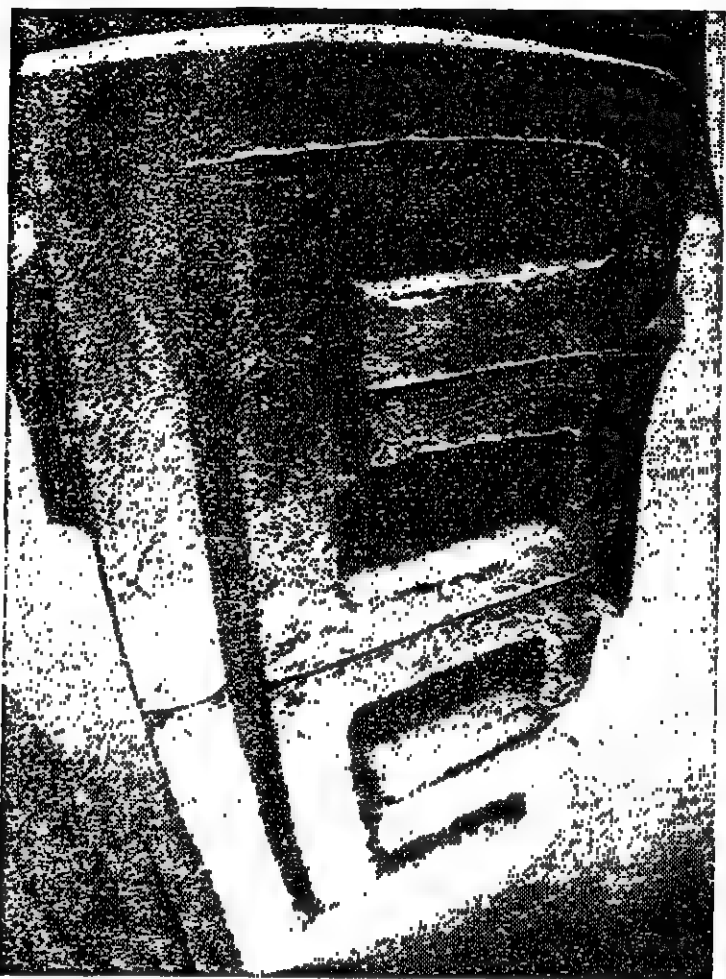
So far, however, very few companies have established

their internal banks, one drawn back being the scarcity of qualified personnel. There is still much searching for their appropriate role in companies, for their linking with the basic banks and their inclusion in the banking system.

Among new developments in Yugoslavia it should be mentioned that foreign bank representative offices are now allowed and several big banks have shown interest in opening offices. In addition the new joint ventures legislation passed last March foresees joint ventures in banking as well as in production and some services but stipulates that this will be regulated by a separate Act. That is expected soon. These two pieces of legislation, it is hoped, will stimulate the interest of foreign banks in Yugoslavia, which is eager to attract more foreign capital and technology.

Aleksander Lebl
Belgrade Correspondent

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	1976	1977	%
	(In billions of Lire)		
Total Deposits	2,541	3,253	+28%
Capital and Reserves	131	161	+23%
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FINLAND

Optimism tinged with caution

THE FINNISH economy may at last be once more turning upwards. The improvement will be small in the current year, and even that forecast is hedged with reservations after the premature predictions during the past three years of an end to the economic depression. The Economic Division of the Ministry of Finance foresees a 0.5 per cent. increase in the Gross Domestic Product this year. Modest though this may be, it is better than the 0.75 per cent. contraction in 1977.

Mr. Raimo Mäskivi, managing director of the Industrial Bank of Finland, president of the Helsinki Stock Exchange and chairman of the Finnish Bankers' Association, puts it this way: "We can take a more optimistic outlook but we must not be over-optimistic. As long as we feel that the situation can be improved we can take the necessary action. We can create a better psychological atmosphere."

In fact, the industrial sector is far from over-optimistic and expects further action from the Government which has been dilatory in its rescue operations and shows no signs of changing its attitude. At least a half of what has given in the form of tax and other reliefs has been taken back in the form of additional charges on corporations. However, there are economists who think that the Government's plans must be given time to work.

There have been three mini-devaluations of the Finnish mark in the past 12 months. The basic interest rate has been lowered by 1 per cent. twice, which is almost sensational in Finland where the discount rate, as it is called, is almost sacred. But the devaluations in the value of the mark have been more or less forced by adjustments in the value of the other Scandinavian currencies—although the Bank of Finland denies this—and the interest rate adjustments have been motivated by political rather than monetary reasons.

Devaluation

The first two devaluations—5.7 per cent. in April and 3 per cent. in August 1977—did not satisfy industry, especially the forest industry. Then, following the change in the external value of the Norwegian krone in February this year, the Finnish mark was devalued by another 8 per cent. The trade unions, already appeased with a 1 per cent. unit reduction in interest rates in August 1977, now demanded and received a further 1 per cent. reduction in May this year.

Mr. Filip Pettersson, chief general manager of the Bank of Helsinki, said after the reduction in interest rates from May 1 had been announced: "This is a decision that was taken without consulting the banks, which is surprising since deposit rates must be reduced from the same date. . . . Savers

must have some motivation for the end of 1978. But most of the increase was due to the devaluations. Debt servicing costs rose to Fmk.4.8bn., 12 per cent. of gross current receipts. This brings up the old question of Finland's creditworthiness. The most recent statements from foreign bankers and assessors indicate that Finland's reputation is still good in the international credit market. The Industrial Bank of Finland recently floated a bond issue in units of account which was originally offered with a 7.5 per cent. coupon and finally marketed at 7 per cent. It was over-subscribed 10 times. After a stubborn defence of the Finnish mark for over three years, the Bank of Finland finally accepted the two mini-devaluations last year and a third in February this year. In

Competition

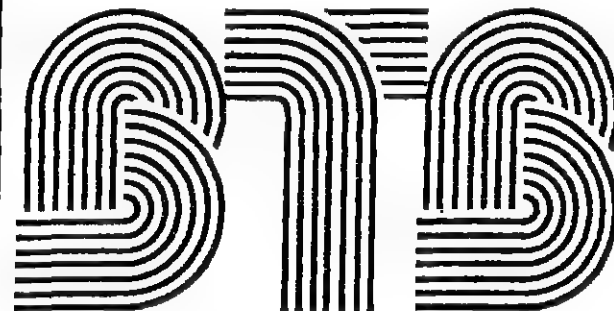
The competition between the deposit banks themselves and with the Treasury is fierce. The commercial banks no longer have to worry too much about demands for investment credit. There is too much idle capacity in Finland and will be throughout this year. But the need for working capital is still acute. The number of bankruptcies in medium-sized businesses seems to be increasing. Indeed one or two fairly large companies have had to be taken over temporarily by the commercial banks, their main creditors.

The latest gimmick in the inter-bank competition is the offer of personal housing loans, which seems astonishing in view of the still tight money market. One commercial bank offered to provide the full financing for a dwelling unit if the borrower had 20 per cent. of the cost price in a savings account. The Bank of Finland stepped in and said that 30 per cent. must be the lowest limit. The aim behind this liberal lending policy is to attract new clients: those who are given credit today will remain customers in the years ahead.

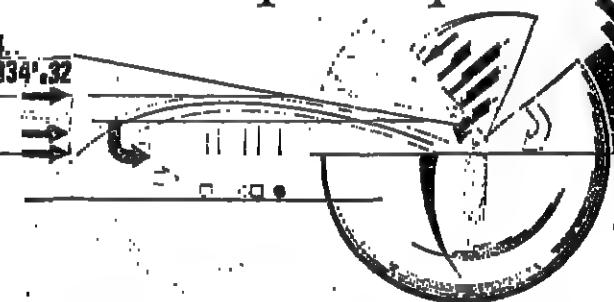
The State must borrow an estimated Fmk. 4.5bn. (£587m.) this year. Roughly Fmk. 3bn. of this, it is thought, will be raised abroad. To take the other Fmk. 1.5bn. out of the already pressed domestic financing market will be a disturbing factor. Apart from anything else, eight industrial companies have announced share issues this year—last year there were none. This is more competition for the small financial resources available.

But it is also a healthy sign that turnover on the Helsinki stock exchange had doubled by the end of last month compared with the first four months of 1977. This is usually a reflection of confidence that the cyclical trend is changing.

Fmk.3bn. (about £391m.) is no small sum to add to the net foreign debt which stood at Fmk.27bn. at the end of last year, 22.5 per cent. of the GDP from the same date. . . . Savers compared with 21 per cent. at



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CANADA

WORLD BANKING XIX

Impact of the new Bank Act

CANADIAN CHARTERED banks gave a strong performance in 1977 and in the first few months of this year have shown further strength in profitability. Reasonable asset growth combined with improving productivity gave them an average 20.8 per cent increase in profit last year, and they fared slightly better than that in the first quarter of 1978. Total assets increased by 18 per cent last year, led by continued strong growth in foreign assets, which gained 26 per cent, of which just over one-third was a result of favourable foreign currency translation gains resulting from the lower value of the Canadian dollar.

While the strength in domestic asset growth has moderated from the high levels of the previous two years, this was not unexpected in view of the sluggishness of Canada's economic recovery. Loan demand from both consumers and corporations has moderated from the 20 per cent rates of growth of the past, and at present is showing an increase of only 14.6 per cent from a year ago.

Slowdown

Although recent banking statistics indicate a substantial slowdown in business lending, the figures are deceiving because of the substantial increase in the issue by corporations of term preferred shares and income debentures to the banks instead of the use of normal bank lines of credit. These provide non-taxable income from banks, allow the corporations to borrow at the lower interest rates and are not classified as business loans but rather as security for money loaned. Income debentures are not new: they were used extensively immediately following the 1929 financial crisis. For quite different reasons they have returned to favour recently.

The interest on an income debenture is deemed to be a dividend in the hands of the creditor, thus making its receipt tax free to any creditor, that is another corporation, resident in Canada. This has been defined in the Income Tax Act since 1935. After the 1929 financial crisis many creditors were forced to convert their fixed interest loans into contingent interest loans rather than see their debtors go bankrupt. But the more recent income debentures involve financially strong borrowers, not weak ones.

A term preferred share is a more recent phenomenon that is not defined by tax law, but it

has many attributes of debt. For example, the shares may be very short-term in nature, having flexible dividend rates during the term through paying dividends at one-half the prime lending rate plus 14 percentage points. They rank ahead of any other shares as far as dividends are concerned, have preference to net assets on liquidation and are redeemable at the creditor's option at a price that reflects the issue price plus accumulated unpaid dividends. Such dividends are also tax free in the hands of the creditor.

The growing use of such instruments has probably been one of the biggest changes in banking operations in the past year, but other major changes will be forthcoming as a result of a revised Bank Act that was tabled in Parliament last Thursday night—more than a year after it should have become law and two years after presentation of a White Paper. The new Act will affect every major financial institution in the country, the banks themselves, the near banks, such as trust and loan companies, the credit unions, the caisses populaires, sales finance companies and the so-called suitcase bankers who are representatives of foreign banks, but not to the extent that had been expected.

Some changes proposed in the White Paper that could have dealt the trust and loan companies a blow were withdrawn in the final Act. It had been feared that the struggle between the banks and the trust companies for business would have been conducted against a backdrop of what many economists believe will be a bleak economic picture during the next five years. They believe it will be a period of high unemployment and high inflation, slow real economic growth, shorter business cycles with sluggish expansion and deeper troughs and a lack of strong Government leadership. In such an environment trust companies expect to face weaker demand for residential mortgages (this has become very noticeable in the past few months) and more competition from other mortgage suppliers, which will mean possibly greater risks in their mortgage portfolios.

The near banks currently offering cheque privileges to customers must maintain a clearing balance with one of the chartered banks. This clearing system has in the past been satisfactory to almost everyone except the federal Government bureaucrats, who without any prompting from the near banks, wanted to give them some say over the largely automatic process of cheque clearing. In re-

turn the near banks will be forced to place on deposit at the Bank of Canada certain reserves on their chequing deposits, reserves which unlike their present reserves of high quality commercial paper and Government bonds, will earn no interest.

This would have resulted from the formation of the Canadian Payments Association, a new cheque clearing organization which for the first time would have given the near banks a say in the way clearing is managed. However, the new Bank Act says, the near banks do not have to join if they do not wish.

Lobby

Because of their fears, the trust companies plan to lobby strongly and constantly both provincially and federally once the revised Bank Act becomes law to get trust company legislation changed so that they can compete on more equal terms with other financial institutions. Revision of the Trust Companies Act and the Loan Companies Act will follow a year or so later, after the new Bank Act is law. The Trust Companies Association of Canada has already made a submission on the changes it would like to see in those acts. For instance they would like to be able to operate with the same leverage as the banks, which at present operate at 30 times capital, whereas trust companies are permitted to operate at only 20 times capital.

The strongest opposition to the proposed requirement that near banks should have reserves on deposit with the Bank of Canada has been voiced by the credit unions and caisses populaires, which are outraged not only by the threat of losing some of their income but by the federal encroachment on provincial jurisdiction. They obtain their charters from the various provincial governments but have been a growing force in the financial community in the past few years, to such an extent that they soon will go to the European market to borrow funds.

It is in the field of financial leasing that the most bitter struggles have taken place. The White Paper proposals would give the banks the right to engage in the financial leasing of major items. This would seriously affect sales of finance and leasing companies since their capital costs are higher than those of the banks. The banks at present are indirectly engaged in leasing in a small way through subsidiaries. The freedom to gain direct entry

into the field could, the leasing companies say, deal them a crippling blow.

A foreign bank will be allowed to set up banking subsidiaries with a maximum of five Canadian branches—but only if Canadian banks get reciprocal treatment in the foreign bank's home country. The total assets of foreign banks will not be permitted to exceed 15 per cent of total Canadian bank commercial lending, and they will be limited in asset size to 20 times their authorised capital. For the time being the Government intends to limit the total assets of each foreign bank to Can\$500m. This will be renewed at intervals.

There are about 35 to 40 foreign banks that borrow on the Canadian money market and they have total assets of Can\$3.3bn. They currently operate under provincial government legislation, but now will be federally controlled.

Finance Department officials say the reciprocal treatment conditions will make it difficult for American banks from certain States and Japanese and Swiss banks to set up subsidiaries in Canada because of restrictions against Canadian banks in those States or countries. However, British, West German and French banks, among those of many other countries, will be free to set up banking subsidiaries.

Essentially, the new Act's provisions on foreign banks are in line with the tenor of the White Paper proposals. The latter were generally more welcomed by the foreign banks than by the Canadian banks but they were not happy about the size and growth restrictions.

By the time the next Bank Act review comes around, some observers believe Canadian banks will be controlling the commanding sectors of the economy in a way never before seen in North America.

James Scott

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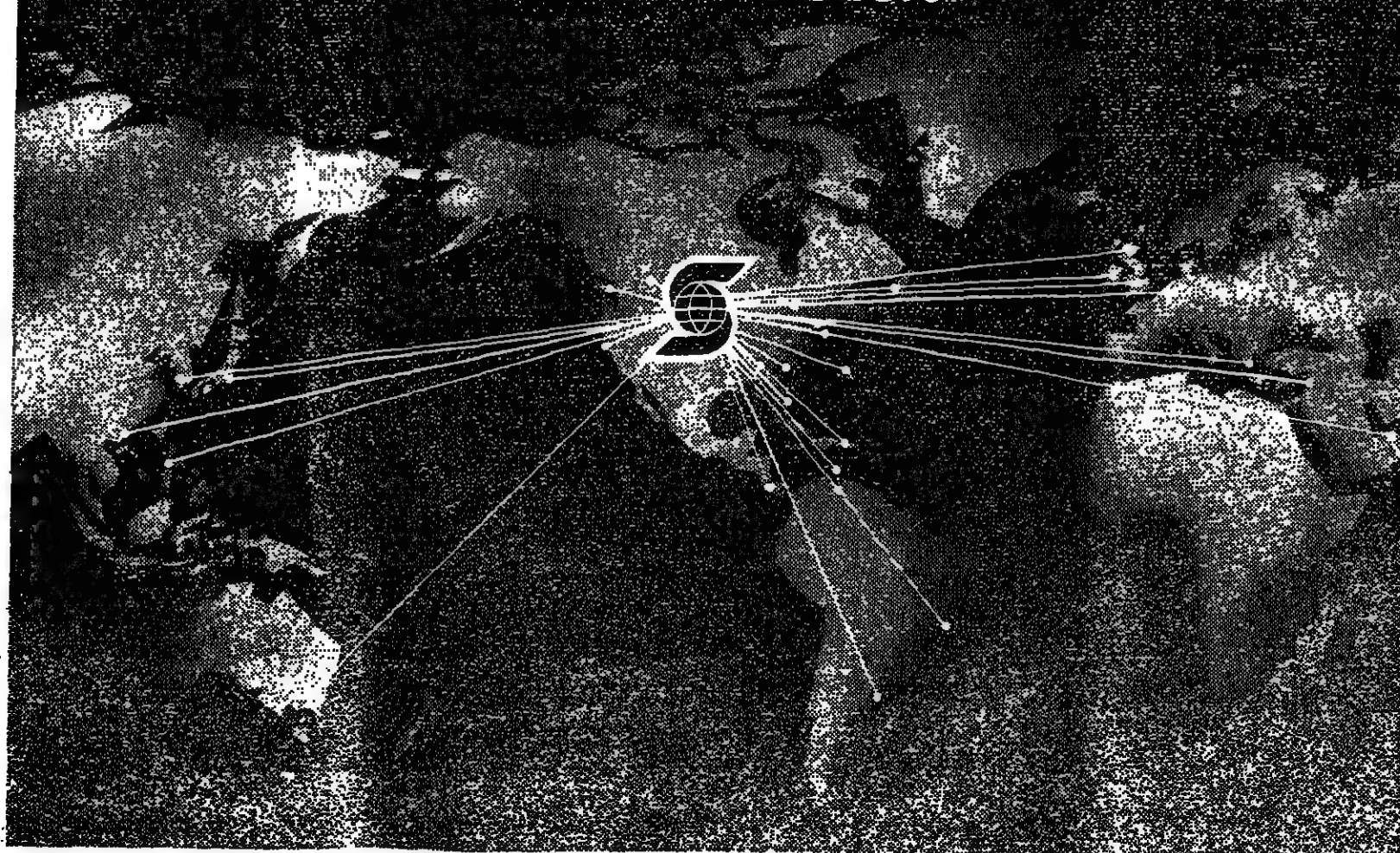


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FINLAND

CONTINUED FROM PREVIOUS PAGE

anticipation of the autumn devaluation in 1977 there was a drain on the foreign exchange reserves and the Bank of Finland made two drawings totalling U.S.\$300m. on its standby credits with a consortium of North American banks, leaving \$400m. on account.

It has since restored the stand-by credit position. In February it made a stand-by credit agreement with a consortium led by Orion Bank of London for U.S.\$200m. On May 10 last it concluded another agreement for

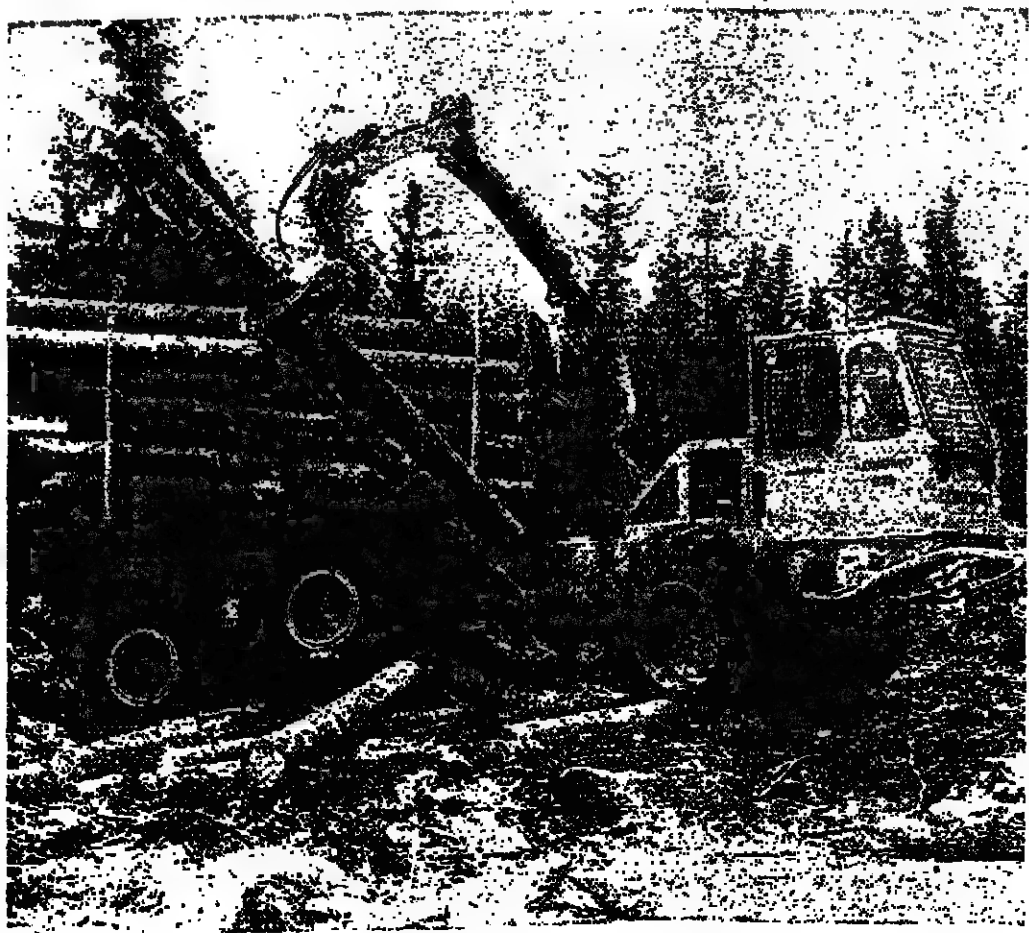
U.S.\$100m. arranged by Scandinavian Bank, Midland Bank and Nordic Bank, all in London. Thus the total stand-by bolster for the foreign exchange reserve is back to U.S.\$700m.

The Finnmark's external value is tied to a basket of 16 currencies which have accounted for at least one per cent of the country's foreign trade for the past three years. Visible export earnings are showing a surplus for the first time in 10 years. The current account deficit has been reduced

dramatically. But the benefit of the past three mini-devaluations has been small so far for export-orientated industry.

This is one question mark hanging over the future of the Finnmark. Another is what the Scandinavian countries will have to do or want to do about their exchange rates in the coming months—and that applies particularly to the Swedish krona.

Lance Keyworth
Helsinki Correspondent



Symbolic of Finland's key forest industry—logging operations at Rauma-Repolas Lokoma works.

Liberal changes

HONG KONG has become the nonpareil of the offshore banking world in that it combines tax-haven status with a lack of foreign exchange controls, and offers accessibility and an excellent communications system. Some of this appears to be on the point of changing, however.

It is not that Hong Kong is about to be eclipsed by other Asian offshore banking centres such as Singapore or Manila, Bahrain in the Middle East, the Bahamas/Caymans, or even New York's projected offshore dollar zone—real though the challenge is from all these in different ways.

The Colony seems bent on reducing its own attractions by introducing a 17 per cent. tax on net interest received from offshore loans, which account for a major proportion of international bank activity in Hong Kong. The nil rate of tax on such profits at present explains why Hong Kong enjoys the lion's share of loan syndications activity, at least in the Asia-dollar market.

Not surprisingly, the proposal by the Hong Kong Government to spread the tax net on banking a good deal wider than it is at present is encountering a good deal of opposition from the international banking community in the Colony, and the enabling legislation on this hardly seems assured of a smooth passage through the Legislative Council.

This negative—positive if viewed from the standpoint of revenue collectors—development aside, Hong Kong has made some further improvements to its banking environment recently by rationalising and liberalising it.

Meanwhile the Hongkong and Shanghai Banking Corporation, Hong Kong's quasi-central bank, or simply "the bank," as it is known in the Colony, has inscribed Hong Kong's name more boldly on the international banking map by its proposal to take a majority stake in Marine Midland Banks in New York.

It was hardly surprising, in the light of the Hongkong Bank's intention to push into the U.S. in a big way, that the Hong Kong Government should have liberalised its policy of foreign bank branch openings around the same time. Bank and Gov-

ernment often work closely together.

The move to tax at least part of banks' offshore earnings came as a good deal more of a surprise, however. It left the international banks as alarmed as they were nonplussed at first, and there was talk of switching loan portfolios wholesale and relocating the Asiatic portion of them in Singapore and the Eurodollar component in, say, London.

Some of the uncertainty and alarm created by rather ambiguous official statements on the tax issue has now been dispelled, however, and the picture is somewhat clearer too on the banks' operating groundrules. That is not to say though that bankers contemplate the proposed tax inpost with equanimity. If their opposition to the measure fails they may even yet rethink part of their offshore strategy on Hong Kong vis-a-vis other centres.

Emergence

Since Hong Kong's Financial Secretary, Mr. Philip Haddad, announced the more stringent tax regime on offshore banking in his March budget, and the subsequent announcement of a more liberal policy towards foreign bank branch openings, a number of things have emerged.

First, offshore loans which are purely "garaged" in Hong Kong, in the sense of being banked only, will not be subject to the proposed 17 per cent. tax on net interest received. At first bankers had feared that such "garaged" loans—where typically a U.S. bank's German office might make a loan which was funded in the Singapore Asiatic market and credited in America yet "booked" in Hong Kong—would fall into the tax net. This could have precipitated an exodus of such loan portfolios—and may be banks too—from Hong Kong.

Secondly, other offshore loans where the bank or deposit-taking company in Hong Kong has played some active part will be taxed either at the full 17 per cent. rate, or at a lower figure where profits are apportioned between Hong Kong and other centres.

What will be specifically taxable are the profits from net interest (i.e., interest received less related overhead expenses) where the role of the Hong Kong bank is deemed to be "active." In effect the test is whether bank employees in the Colony have undertaken work on the interest-bearing loan.

In this sense Hong Kong's proposed new statute law appears to run counter to case law which has established the "provision of credit test" in deciding where offshore earnings are taxable.

Case law in various parts of the world says that the test (of where profits should be taxed) is the place where a credit is made available to the borrower, and Hong Kong has followed this precedent. The test is open to abuse, however, as in an extreme case a banker might claim he had actually agreed to, and made available, credit outside Hong Kong—maybe while flying over the Colony in an aeroplane—and the loan was thus not taxable in Hong Kong.

Whether the courts would be fooled is another matter. It is argued by Professor P. G. Willoughby of the Department of Law at Hong Kong University that the provision of credit test is not so "artificial" as some of its critics claim.

"It is clear," he says, from a number of authorities, including one decision of the Privy Council which would probably be regarded as binding by any Hong Kong court, that the test to be applied in deciding the source of interest is not a legal concept but something which a practical man would regard as a real source (and that) the ascertaining of the actual source is a practical matter of fact."

Whatever the outcome of the continuing debate, it seems certain that Hong Kong lawyers will have a field day if the Inland Revenue (Amendment) Bill is passed in order to give effect to the new tax. If foreign banks in Hong Kong are faced with entering a new jungle of tax laws, at least they are emerging from another where banks and quasi-banks compete according to different rules, riddled with anomalies.

The Hong Kong Government has ended its 12-year moratorium on foreign banks opening full branches, subject to a number of conditions, one being that only a single branch is opened in the Colony. A number of licences have already been applied for under the Banking Ordinance (1964) though others appear content to continue operating under the Deposit-Taking Companies Ordinance (1976) and some are thought likely to opt for operating under both.

Those banks which remain as deposit-taking or "finance" companies only—there are 213 of them (compared to 34 local banks and 104 bank representative offices)—will no longer be able to operate in such a liberal climate as they have in the past. Aside from the fact that they were barred from taking deposits below HK\$50,000

and could not operate current accounts, the so-called finance companies were leniently treated compared with full banks. They were not subject to prudential supervision by the authorities or required to maintain minimum liquidity ratios. In future they will have to meet similar requirements to those imposed on the banks although the concept of liquid assets may be redefined to make it suitable for both types of institution, and different ratios applied in each case. Capital ratios may also be introduced for both banks and other deposit-taking companies.

Probably the biggest anomaly ended by the present moves is that whereby foreign banks with the word "bank" in their title have been penalised. The now Hong Kong can register as Government moratorium on new such.

NORWAY

Limits maintained

NORWAY HAS seen a remarkable turnaround in economic policy this year. The rise in the payments deficit and foreign debt had by the end of 1977 reached proportions which were worrying even for a country with big North Sea oil resources under development. The re-elected Labour Government has had to clamp down on consumption and lending and even to make an attempt to limit its own spending.

Like the neighbouring Swedes, the Norwegian Government misjudged the duration of the world economic recession and its effect on the country's export potential. But the Norwegians, banking on the credit they could raise from their future oil revenues, held on longer with their counter-cyclical and expansionary policy. They aimed both to maintain full employment and provide a rise in real incomes. At the same time, for political rather than financial reasons, Norway remained in the Euro-

pean currency "snake" and saw the krone appreciate alongside the Deutschmark.

The result was a rapid deterioration in the competitive capacity of traditional Norwegian industries as their costs soared relative to those of their rival foreign manufacturers, accompanied by a totally unforeseen setback to exports last year. The payments deficit crashed through the Finance Ministry's forecast to reach a massive Kr 26.5bn. (\$4.8bn.), or 14 per cent. of GNP. Contributing factors were the delays on North Sea oil development, which postponed the oil income, and the reduction in the earnings of the shipping fleet.

Forecasts

By the end of 1977 the net foreign debt had reached Kr 80bn and revised forecasts indicated that it would be as high as Kr 100bn at the end of this year—about half GNP. Even more significant, the larger part of this year's foreign borrowing would be needed not

What effect the combined impact of the tax changes and the more liberal banking regime will have on Hong Kong's relative position in the Asiatic market remains to be seen. Offshore loans by Hong Kong banks currently stand at just under HK\$20bn, but the bulk of these are thought to be to non-bank borrowers outside the family, whereas most of the loans in Singapore's \$21bn Asiatic market—roughly twice the size of Hong Kong's—represent rather incestuous interbank lending.

Meanwhile, the Hongkong and Shanghai bank's attempt to carve out a more international role for itself, through the acquisition of 51 per cent of Marine Midland, looks likely to take until mid-summer at least, and possibly well into the autumn, before it gets all the necessary approvals from regulatory authorities in the U.S. and from Marine Midland shareholders.

Although the Norwegian banks are not so heavily committed to the shipowners as are one or two foreign banks, some of them have already made further provisions for losses on their shipping accounts this year. The private banks are subject to very tight credit control by the authorities and the effect of the Government's latest deflationary action has been to reduce the framework for increased lending by the private banking sector this year from the Nkr 8.3bn indicated in the original budget to Nkr 5.9bn.

The commercial banks are also having to adapt this year to the "Democratisation" Act, which is designed to increase public control over their operations by including on their boards and representative councils members appointed by Parliament or, in the case of the provincial banks, by county councils. This change may have little effect on their day-to-day management but could influence their ability to raise equity capital.

Last year the Government and the Bank of Norway appeared to recognise that they were putting undue pressure on private banks. In December they announced steps to ease their rigid interest rate control, an obstacle to the development of the capital market which had been criticised by the OECD. They abandoned control of interest rates by 1 per cent.

A minor interest rate war broke out when a savings bank in Stavanger raised its deposit rates more than recommended by the savings banks' association to a local commercial bank followed suit, causing some confusion among bankers who saw their profit margins further threatened. The outcome of this limited experiment in greater freedom is still uncertain.

Nevertheless the Bank of Norway has estimated that unless the new deflationary measures act quickly and the terms of trade improve the foreign debt could grow to Nkr 150bn before the oil revenue is large enough to reverse it. Another factor to be reckoned with is a possible speed-up in the rate of oil investments (at least half of which would fall on Statoil, the State oil company) if the increased exploration now planned results in new discoveries. Moreover, the Bank of Norway has been borrowing at five-year terms, so that the

rolling over of these debts should keep foreign bankers busy.

For Norway's private bankers the short-term prospects are not too bright. Last year most commercial banks saw a considerable expansion in the volume of business but reported lower earnings, partly as a result of shipping loans written off. Some banks had to reduce their dividend payments. Several had to write up the value to reduce their dividend payments. Several had to write up the value of property and other assets on their balance sheets in order to bring their equity figures up to the legal requirements.

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William Dullforce
Nordic Correspondent

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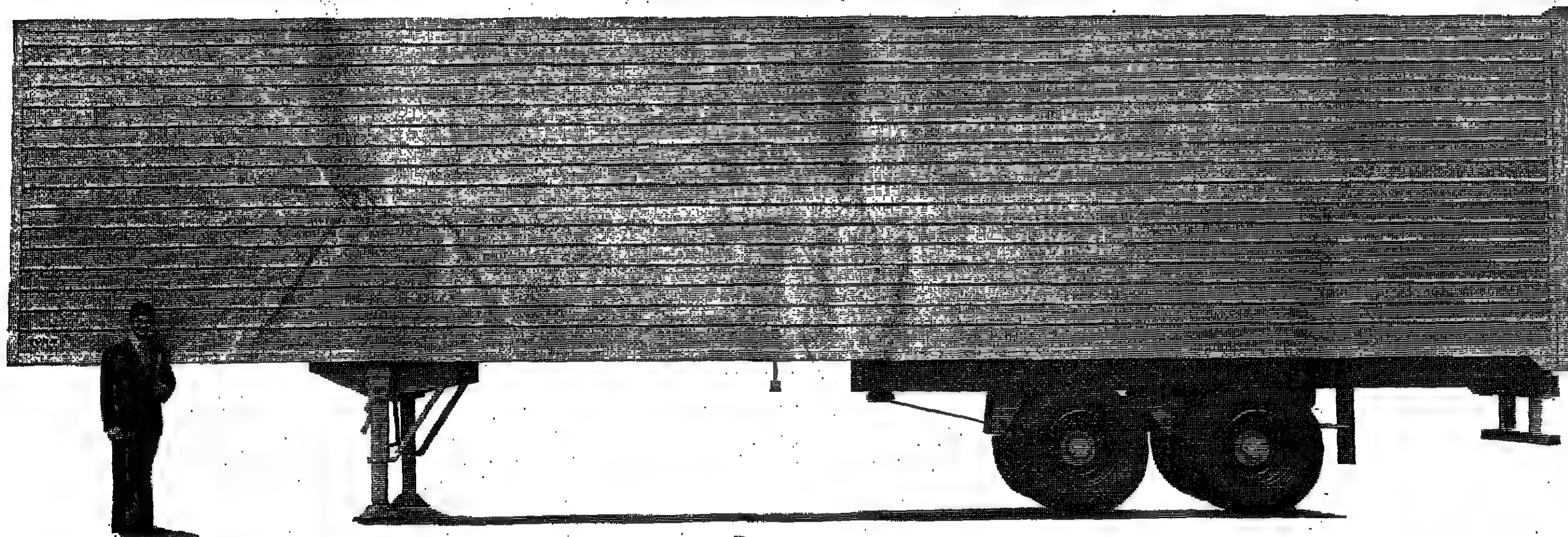
FINANCIAL TIMES SURVEY

Monday May 22 1978

Trailers

With the depression of 1975 and 1976 now firmly behind it, the UK trailer industry is looking forward to a period of steady expansion. Even so manufacturers feel that prospects, particularly overseas, are not as bright as a year ago, and there has been some decline in the Middle East market.

14 AWKWARD QUESTIONS TO ASK A TRAILER VAN SALESMAN.



Q. I have always bought chassis vans. Why change to frameless construction?
A. The frameless van gives you more cube and more payload.

Q. But surely you lose rigidity and strength when you leave out a chassis?
A. On the contrary, the Freightmaster's monocoque construction is amazingly tough. It's the same principle as an aircraft's fuselage. Inherent strength without weight.

Q. But the floor must be weaker, mustn't it?
A. We put our T beam cross-members at 12" centres. You can run a loaded fork-lift the length of the van.

Q. Do you save weight by using thin aluminium in the side walls?
A. No. We use thicker panels than normal for extra cargo protection.

Q. How about protection from the elements? And pilferers?
A. The Freightmaster is watertight. The drum-tight, one piece aluminium roof has all its rivets outside the cargo area. The doors are the same as those used on ocean-going containers and we use special seals. And the patented raised rear header not only allows you to load up to the full height of the van, but it also incorporates a rain channel to force water away from the doors.

Q. What protection do I get?
A. We guarantee the Freightmaster for materials and workmanship for 12 months.

Q. What about after that?
A. York have 12 factory branches in the U.K. and a European network that is the envy of the industry.

Q. Talking about the EEC, does your van conform to all the regs?
A. Yes. We've been in Europe for 16 years. And, thinking ahead, the current Freightmaster is designed for 44 tonnes operation.

Q. How long can I expect my van to last?
A. We built the country's first frameless semi-trailer van in 1959. It's still hard at work.

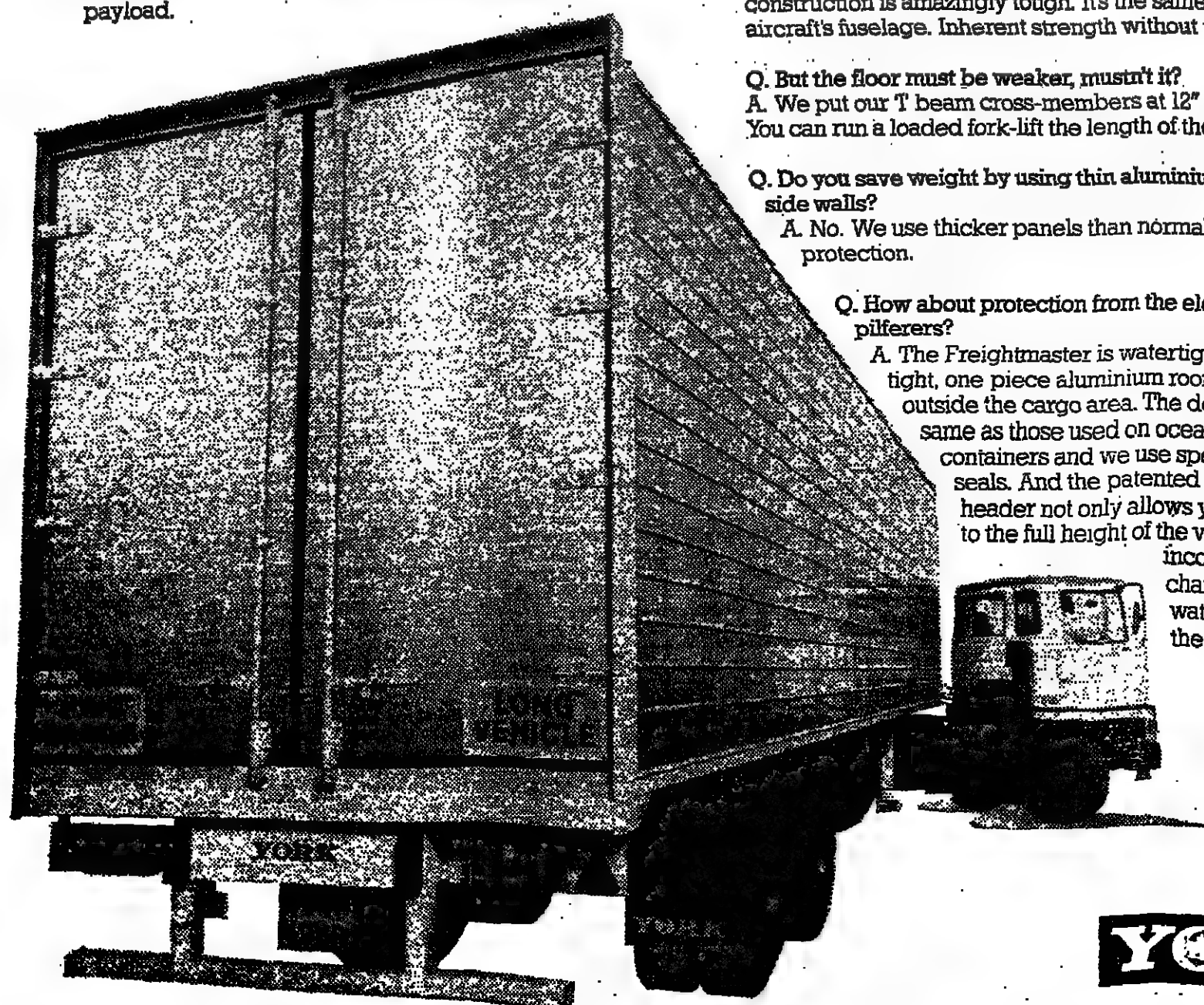
Q. How well does your van hold its value?
A. Look at the used-trailer ads.

Q. What's this Hobo axle?
A. It's unique. And a genuine fuel and tyre saver. Basically it's a lifting axle which converts your tandem to a single when you're running half laden or empty. It's an option you can get only from York.

Q. Surely I can buy a cheaper van from someone else?
A. Yes, but you get what you pay for. It has always been York's policy to build up to a specification and not down to a price.

Q. Fair point but how long would I have to wait for delivery?
A. At the moment we can supply standard vans from stock.

Q. Where do I place my order?
A. York Trailer Company Limited, Northallerton, North Yorkshire. Telephone: Northallerton 3155. Telex: 58600.



YORK FREIGHTMASTER

TRAILERS II

An uphill climb out of recession



A Bonalack Coldsaver (above) trailer built for Unifast International Forwarding's refrigerated service between the UK and the Middle East. Below is a York Special animal transporter.



A 44-tonne trailer.

U.K. TRAILER PRODUCTION (£000)

	1973	1974	1975	1976	1977
No. Value	No. Value	No. Value	No. Value	No. Value	No. Value
Total trailers	22,169 43,121	19,066 51,170	11,024 35,571	13,497 51,047	17,500 —
of which, sales in UK domestic market	20,428 37,123	17,186 43,315	8,345 22,784	10,112 32,227	14,500 —

Source: Business Monitor, Department of Industry.

Designing for efficiency

THE PROBLEMS of improving the design of such a basic piece of equipment as a trailer while keeping cost low and durability high have increased over recent years to the point where fine chiselling has become the order of the day.

The more efficient use of tractors coupled with the need to keep payloads high have produced lifting axles, or demountable bodies, but there has been no technical revolution and engineers are still more concerned with meeting various sets of regulations and adding sophisticated ancillary electronic equipment than they are with re-inventing the wheel.

While there are always hopes that a new material will burst on the scene, as light as balsa, as strong as steel, and as cheap as plastic, there are no signs that there is a breakthrough around the corner.

walk a fine tightrope between weight-saving and loss of strength and ruggedness while European builders are able to beef up their product in anticipation of overseas. And with materials accounting for about 70 per cent of a trailer's cost great care has to be taken in a price-sensitive market not to push the overall cost too far out of line with the competition.

On the areas showing great benefit is the development of aerofuels. If one tries to run along with a sheet of hardboard similar to the area of the front of a lorry and trailer the resistance would be phenomenal. Yet comparatively few lorries use aerofuels despite the widespread research into airstreams which have had an influence on car designs.

Excitement It has been estimated that efficient aerodynamics can lead to a reduction of 10 per cent in consumption of diesel fuel, a saving that would have engine manufacturers jumping up and down with wild excitement. There are some very futuristic designs on the walls of senior designers in the truck industry, but actuality seems a long way off.

The attempt to minimise tyre friction seems to conflict with the wish for adhesion but York has developed the Kobo lifting axle so that when a trailer is under light load or taken on a whole set of wheels can be taken out of use with, says the company, a further saving of about 4 per cent in diesel fuel.

So far there has been little market enthusiasm for the

super single, a wide single tyre instead of twin wheels on rear axles. But some South Coast petroleum tankers have run well on them and it is possible that this will be an idea that will be taken up again.

Taking the lorry as a whole it seemed that the greatest savings in weight would have to be made by the tractor manufacturers, but in fact it is the trailer builders who are constantly required to compensate for the excesses of their mechanical spouses.

Some of the specialist builders have brought new concepts into the play and the small independent builders have always been adept at producing the bespoke article or a trailer to fit the very specialised needs of an individual customer.

There have also been moves to help the lot of the driver. From sliding doors and curtain-aided tilts to one-man handling of air lines and securing webs the trailer manufacturers have sought to ease the burden of loading and unloading and to speed up turnaround. This pleases both the driver and the operator in a business where the ability to keep in tight schedules can mean the difference between profit and loss.

There has also been more use of refrigerated vehicles—commonly referred to as reefers—and with the prospect of ever more stringent regulations covering the transport of food it seems likely that there will be a growing market for this type of trailer.

In this area too there has been an increased use of glass-reinforced plastic and plywood sandwich which offers smooth sides, good impact resistance and ease of cleaning. The original specialists were Tidd Strongbox but both York and Crane Fruehauf are both now using the material and the method seems to have established itself as a permanent feature of the scene.

The next great design exercise will be the problem of conforming to whatever rules are agreed throughout the EEC. This will cover axle-loading, including the differences in distancing from the tractor cab, the positioning of the pivot pin for the articulated trailer and the amount of trailer load to be carried by the tractor axles.

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Overall, the Continental trailer manufacturing industry is probably more fragmented than the UK's, but most of the big markets have a similar pattern of two or three big producers dominating sales. The biggest difference in Europe is that the road haulage industry is not so large as it is in the UK, and although international trucking is well developed, the trailer stocks in these countries are probably not as great as in the UK.

The most recent International figures, given in the Monopolies Commission report on the Fruehauf/Crane merger, indicate that total British trailer stocks, including both semi-trailers and drawbars, came to between 180,000 and 185,000 (trailers are not registered, so there are no precise figures). This compares with a total stock of 123,500 in Germany (80,800 drawbars and 42,700 semi-trailers), 111,000 in France (11,000 drawbars and 100,000 semi-trailers) and 62,000 in Italy (50,000 drawbars and 12,000 semi-trailers). The Netherlands, also a big trailer market because of Rotterdam's status as an entrepot, is calculated to have a stock of 41,800 units (10,300 drawbars, and 31,500 semi-trailers).

It is mostly because of the relative size of Britain's trailer industry that it has developed companies which are powerful in relation to the rest of Europe. Crane Fruehauf, for example, is probably the largest European trailer company and is certainly bigger than any of

the other Fruehauf subsidiaries in the region: it has sales of about £70m, a year compared with £50m in its French subsidiary and £30m in its German company. Fruehauf overall has a turnover of about £160m in Europe, giving it some 20 per cent of the European market of about £800m a year.

Companies in Europe are beginning to look on this market more and more as an integrated unit. This is what lay behind the hard-fought Fruehauf bid for Crane Fruehauf in the UK, an acquisition which has given the parent group the cornerstone on which it is aiming to build a European concern which co-ordinates its manufacturing and marketing organisations.

Trailer, the largest French manufacturer, 58 per cent owned by Pullman of the U.S., is trying to develop a similar strategy from its strong base in France—production there exceeded Britain's last year with 29,000 units. Along with Britain, France is the key market in the European semi-trailer industry, with production regularly approaching the same level as in the UK. Germany and the Netherlands make only about a one-third of the total.

The move towards integration of the European market will, however, have to take account of differences in legislation and in operating practice in the haulage industry. Europe is by no means as homogeneous as the U.S. as yet, and probably never will be. In Germany, for example, legislation has encouraged the widespread use of drawbar trailers until they have

become an integral part of the transport scene: in the UK, legislation has had the opposite effect. At the same time, Britain's stringent vehicle weight regulations have encouraged the construction of lighter trailers in an effort to achieve the maximum use of load carrying space.

EEC regulations will gradually iron out some of these differences, once the Community comes to grips with the thorny issue of vehicle weights and dimensions. This will have the effect of imposing more standardised designs. But at the same time, companies have had to adopt a more international stance in manufacturing in some areas to cope with the requirements for long-haul vehicles which have to be acceptable in a number of different countries.

Technology will also play its part in bringing a more rationalised structure to the industry and the product ranges. This is because the newer equipment for making the more sophisticated trailers—tankers and the like—will be so costly that only the larger companies will be able to afford to put down the capital. New methods of welding, metal bending and making glass-reinforced panels are all being discussed widely in the industry at the moment, along with new automated production processes.

As they are developed, these techniques are bound to put more pressure on the marginal producers because of the cost savings they create: but it is likely that only a few of the

larger groups will be in a position to go ahead with the capital investment involved. It is clear already that the market has taken an irreversible step towards more sophisticated products, and away from the old type of platform trailer which used to provide the backbone of the trucking industry. Enclosed trailers provide better security, far more protection against the weather and damage, and greater safety for other road users and truck drivers.

Thus although platform trailers still provide the largest proportion of vehicle stock at around 20 per cent in the UK, enclosed vans for carrying dry freight and refrigerated goods, come a close second on about 18 per cent, to be followed by the curtain-sided and so-called TIR vehicles on about 14 per cent. Tankers account for another 9 per cent. Given that some of this vehicle stock is quite old, and therefore inherited from the days when platform trailers were more popular, it is clear that the newer forms of trailer are gaining ground fast: indeed, during 1977 the curtain-sided sector showed much the fastest growth, mainly because the design of these trailers offers all-round access, and a quick turnaround loading time, while guaranteeing security of the load.

It is also clear that these more complex products require more specialised skills in manufacturing. According to the Monopolies Commission report on the Fruehauf takeover of Crane, there are about 40 trailer manufacturers in Britain. Yet, of these, only 10 make frameless (monocoque) vans, and only 13 manufacture TIRs, while 15 are in the business of making large platform trailers.

This trend towards sophisticated products also clearly gives a chance to highly specialised trailer manufacturers who can build up a reputation in one particular area, such as Fruehauf in refrigerated vehicles, Tidd Strongbox in GRP panel vans, or King and R.A. Dyson in low loaders. Like the smaller lorry manufacturers, they can provide quality and know-how for customers who require special treatment. But it is unlikely that any of these smaller manufacturers will be able to expand into prominent operations as happened with a number of newcomers, such as Bodens, in the 1960s. Trailer manufacturing has now grown into a mature industry, with a fairly stable commercial structure, in which the economies of scale will strengthen the hands of the larger producers.

Terry Dodsworth

Growth of leasing

Companies take up leases for two main reasons. The first is that the system releases them from tying up a large amount of capital in equipment which they might be using elsewhere. This argument depends critically, of course, on what alternative uses the company has for the money, and there are occasions when any one business will want to alter its policy because of changed circumstances. In the last two or three years, however, the tightness of finance has meant that many companies have seen an advantage in turning to leasing, and balancing the rentals clearly against the money earned by the use of the equipment. The system also has the advantage of smoothing out cash flow since the pattern of rental payments is clearly known in advance.

The second important consideration behind leasing is that contracts can be written to provide users with maintenance and service. Some customers want this kind of backup so that the trickier problems of managing the fleet are shouldered by someone else, while they have guaranteed use of the trailers they are leasing. In this kind of area, known generally as contract hire, a wide variety of services is provided, from the complete administration of a fleet, including invoicing systems and so on, to regular maintenance deals, or maintenance and breakdown contracts.

There are no clear figures showing how far the trend towards leasing in the trailer industry has gone. But it is possible that this form of finance provides backing for about a tenth of the UK's total stock of trailers, now valued at over £160m units. This is roughly in line with the use to which leasing is being put in the car and

general truck business. But, at the same time, the figure also indicates that there are possibilities for a great deal of growth, since in the U.S., where leasing finance has been available for much longer, and industry more used to taking advantage of it, the majority of trailers are now run under leasing contracts. Since the U.S. semi-trailer stock is reckoned to amount to about 1.5m units, this means that more than 700,000 pieces of equipment are being run under leasing contracts.

Opportunity The boom in demand for trailer leasing last year encouraged a great number of new companies to enter the market in Britain—one established organisation calculates that about 30 new branches were opened up and down the country. The big finance houses, having moved into car leasing, are now taking a hard look at the commercial vehicle sector, including trailers, while a number of smaller entrepreneurial organisations are latching onto the opportunity provided by the fashion for leasing. But the two largest companies in the field remain Crane Fruehauf and Transport International Pool (TIP), who are both well ahead of their rivals in terms of the number of vehicles they have under leasing or contract hire arrangements.

The two companies, though both ultimately American-owned, are nevertheless very different in terms of where the emphasis of their business lies. Crane approaches it from the point of view of the trailer manufacturer adding another facet to the basic business of manufacturing; TIP, on the other hand, is a leasing specialist with wide experience in the vehicle industry, including

cars. Its skill lies in identifying the right kind of leasing or rental deal for a particular customer, and then providing the expertise to fashion contracts to the particular needs of individual clients.

Both these companies possibly have about 3,000 trailers under their direction in the UK at present, and the indications are that this is about twice as many as their nearest rivals, such as Central Trailer of Manchester, or Xtra Trailers.

TIP, based at Watford, is particularly active in international haulage, concentrating on the sort of trailer fleets which are involved in long-range routes across Europe and even further afield. This bias is partly because the international haulage business tends to be more sophisticated in its use of finance, and therefore more ready to move to leasing. But TIP is itself a well-spread international group, with branches in most European countries, and an estimated European fleet of about 10,000 units. The trailer group is a part of Celco, the largest of the U.S. vehicle leasing companies, which expanded in Europe a few years ago on the heels of the American vehicle and trailer manufacturing groups. Like the producers, Celco has now built up a leading position in its own field—its car leasing company is establishing a major foothold in Britain—and on the trailers side probably has the biggest leased fleet in Europe.

The Crane Fruehauf organisation also has some international links through the Fruehauf Corporation's European network. This is centred on RenTec Europe, which is registered in the Netherlands, and is jointly owned by Fruehauf International, RenTec Fruehauf France and Ackermann-Fruehauf of Germany.

Two years ago, RenTec also took over the activities of ICS Trailer, a U.S.-based leasing company which was active on the Continent and in the UK. The Fruehauf leasing and rental subsidiaries, however, tend to work reasonably independently in each European country. In Britain, the group's activities in this field are split between a pure leasing company, which specialises only in finance, and a rental operation which offers a variety of contract hire schemes. The company says that about 50 per cent of its fleet is on fairly short-term contracts which include maintenance and servicing clauses.

Like Crane, other trailer manufacturers have examined leasing as a separate arm of their business. Craven Tashier, for instance, runs Eurofleet Rentals, and York has tested the water more than once in the last few years. But none of the others has made the same impact. York, indeed, the second largest UK manufacturer, has run down its leasing activities. The main competition today, is coming from financially orientated groups whose chief expertise lies in fashioning schemes to suit the tax and financial position of their clients.

How many of these groups will remain in business in the trailer industry is anyone's guess. Currently, a lot of purely fashionable interest is being shown in this sector, which is bound to die down in time. On the other hand, there is probably scope for one or two more large companies to appear and make their mark, since it is likely that, within a ten-year period, a much larger proportion of the trailer stock will have gone over to leasing.

Terry Dodsworth



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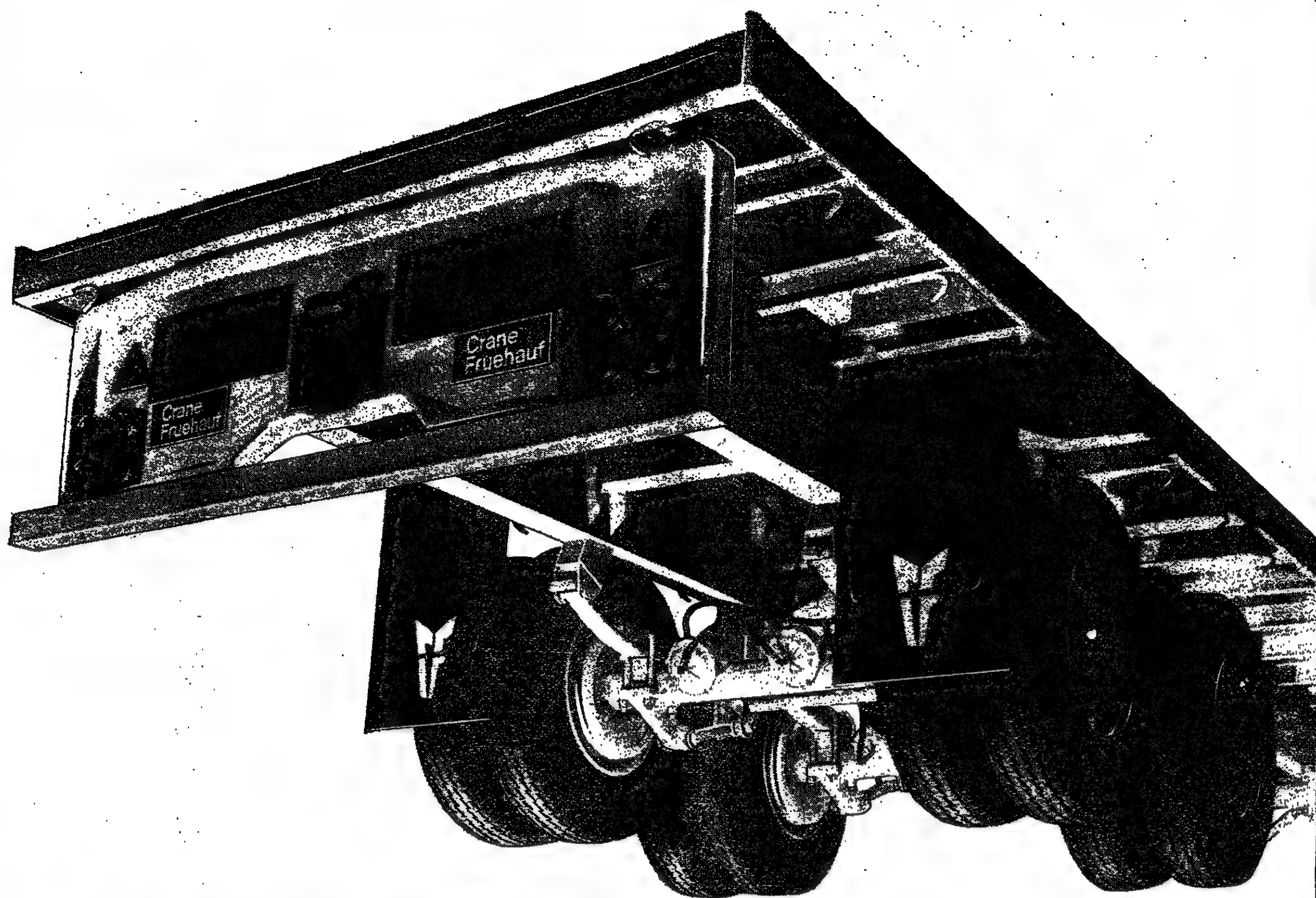
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TRAILERS IV

Exports provide a lifeline

EXPORTS HAVE provided a lifeline to the UK's steady trend towards overseas markets. In 1972, semi-trailer exports amounted to only 590 units, worth £2.7m; by 1974 this had risen to 1,625 units worth £6.5m, and by 1976 to 3,017 units worth £17.5m. Exports of British-made trailers rose sharply in 1977, going up from £1.8m in 1976 to £3.1m in 1977, with a further increase to £3.5m in the first three months of 1978.

At the same time, the steady growth of the economy helped the trailer industry to remain fairly static at around 3,000 units. But this can be explained by the sharp upswing in the domestic market from about 10,000 sales in 1976 to 14,500 in 1977, which diverted production away from overseas opportunities. The industry simply was not capable of coping with the 50 per cent

increase in demand at home and time, the value of parts exports to the EEC has risen even more sharply, increasing from £0.6m in 1972 to £3m in 1976, much of which was probably due to the successful assembly operation now run by York Trailers in Holland.

Perhaps a more significant area of growth has been in the Middle East, although there are no official figures to indicate precisely what this market accounts for. All the big UK producers — Crane, York and Craven Tasker — say they have experienced strong sales in this area, where there is heavy demand for specialised vehicles. On the one hand, the growth of oil production has brought with it the need for very heavy-duty low-loader trailers for transporting enormous pieces of drilling and production equipment; on the other, the rapid escalation of building and construction has created demand for tipping trailers of various kinds; and in addition, the expansion of consumption of all kinds of Western luxuries has increased the requirement for a basic haulage and trailer industry, along with specialised equipment such as refrigerated van trailers.

A similar demand for highly specialised equipment has come in recent years from Eastern European countries and Russia, all of which are developing a haulage industry. From Russia, in particular, there has been heavy demand for large multi-axle low-loading vehicles capable of taking large loads — one result of its development policy in the East where some very heavy generating equipment is being installed. Craven Tasker has picked up some of these orders against local competition. Similarly, Poland has also bought a considerable number of refrigerated vehicles from Cravens for use in a fleet which, among other things, transports meat to the Middle East.

The other most significant market for Britain in recent years has been Nigeria, which has now become the second biggest overseas importer of British motor industry products after Iran. Nigeria, expanding like the Middle East on an oil-

based economy, and already importing a great number of British lorries, requires a broad variety of products, and most of the UK trailer manufacturers have built up sales there.

Part of Britain's success overseas has been due to recent years to the competitive cost of the UK product. This, in turn, has been caused by a combination of low wage rates and a more rationalised industry than in some parts of Western Europe. Britain has a larger haulage industry than any other country in the region, and its trailer companies tend to be bigger. Yet competitors from the rest of Europe have seen to it that the UK does not have it all its own way in any of these overseas markets, and it has become increasingly difficult, for example, to win orders in the Middle East, particularly since the hardening of the pound during the last year.

Fruehauf Corporation says that some of its other European companies have had proportionately higher exports than its British group.

The signs are that in the longer term it will become more and more difficult to operate in many overseas markets on a direct export basis. As in the truck and car industry, many countries will increasingly demand an element of local assembly. Thus the industry will split two ways. On the one hand, there will be greater rationalisation within Europe, leading to a growing cross-flow of parts between different EEC nations; on the other, there will be more overseas assembly plants in the developing world.

There are already signs that these trends are establishing themselves. The flow of trailers between Britain and the rest of Europe, for example, is already growing; to correspond to the growth of exports to the EEC, the TIR system will be extended to cover the registration of the vehicles involved, so the merry-go-round continues.

At least in one area, lighting, it should be easy for trailer manufacturers to keep ahead of the rule book, one would think. Yet even here it is not just a matter of festooning some extra illuminations along the side of the trailer, a relatively simple job that could almost be covered by a modular kit. The problem is the height of the lights off the ground, which is bound up with the height of trailers generally.

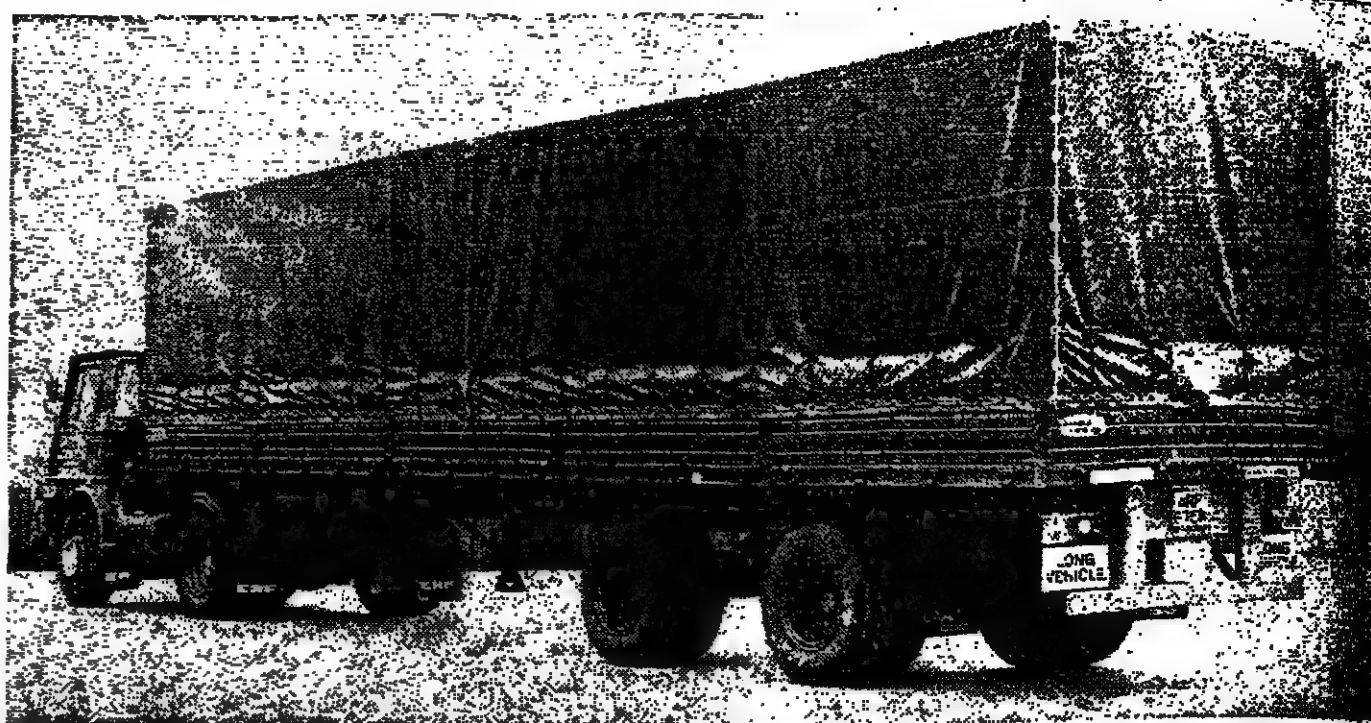
At every turn there is another gremlin of a rule waiting to catch out the trailer builder, and behind every gremlin there are ten civil servants. The only answer has been for the trailer builders to split up their overseas operation on a national basis. In the end this may prove to be beneficial, especially if, as some predict, it takes a long time to overcome the fragmentation in Europe and the insistence by operators that their trailers are custom-built.

So far there has not seemed to be any great urgency to tackle the problem of international trucking. This is partly because of the growth of the environmental lobbies which have made governments look nervously over their shoulders before making any decisions.

Nor has there been any effective lobbying by the manufacturers, except in a negative way. The pressure of cost is not one which is clearly apparent; although there would be obvious benefits to some there are the complementary fears that others may suffer badly. Again this covers both the tractor and trailer side of the industry.

It is difficult to feel that the problem will be solved except as a joint package and only after a great deal more wrangling. In the meantime the industry is running out of the opportunist markets in the Middle East and Africa only to find that its own, very rich, back yard is a tortuous mass of brambles.

Stuart Alexander



A Craven Tasker Tasklift semi-trailer.

which reached a value of £5.3m in 1976, imports have risen to about £2m from £1m in 1975. The main sources of supply are France and Germany. Similarly parts imports have now reached £1.6m against £0.2m in 1972. In the longer term, also, Fruehauf has declared its intentions of establishing specialised production points within its European organisation, which could be expected to increase the flow of two-way traffic.

Outside Europe, the first signs of the move towards overseas assembly came in the decision of Crane Fruehauf to set up an Iranian facility in 1976. This is jointly owned with Iranian interests, and is still in the process of being developed. Similarly, Fruehauf's French and German subsidiaries have joined together to negotiate a

similar agreement in Algeria. The head of Fruehauf Europe, Mr. Fred Schwab, says that this is the way he believes exports will go in the long term, although there are commercial problems in establishing manufacturing units in the developing world. "In future I don't think there will be a market for the import of trailers so much as for the import of parts."

In the immediate future, the prospects for exports, while better than last year, are still not as buoyant as two years ago. The explosive growth in the Middle East has now come to an end and competition has become more fierce, with the Japanese moving in and the American producers taking advantage of the weakening of the dollar. York Trailers, Britain's most

effective exporting company, is also intending to do more overseas assembly at its Dutch plant as a means of reducing transport costs to the Continent.

In the final analysis, the overall UK performance will depend to a considerable degree on Crane's policies — the American owned company and York, each exporting about £10m worth of goods, account for about two-thirds of Britain's exports. Some critics of the Fruehauf takeover of Crane believe that it will in the end reduce exports and increase imports; Fruehauf itself has argued that it will increase the British subsidiary's potential for export. The next few years will show which side was right in the argument.

T.D.

Major producers take a grip

"THERE SEEM to be scores of trailer manufacturers in Germany. But every day another one disappears and we regularly get offers to buy up others. The business is becoming more and more mature, and there are becoming fewer and fewer players, just as in the car industry." As these words from one of the European industry's top executives indicate, rationalisation is now sweeping through the trailer manufacturing sector in every significant country in the EEC, making it harder for the small, non-specialist companies to survive, and creating a smaller number of powerful companies than ever before.

A few small companies are, of course, still emerging. But these tend to be real specialists, intent on looking after discrete little niches of the market or on making units which require some unusual skill. What is gradually disappearing is the old tendency for back-street trailer companies to spring up out of nothing making standard platform units. "Anyone with a large garage used to be able to make a trailer," says one executive. "They could go out and buy the steel and the springs and get some welding equipment and they were in business with zero overheads. Then when business became marginal they could close it down quite easily."

Grasp Fewer and fewer of these organisations are getting off the ground today. This is partly because the larger producers now have a tighter grasp on the market, with wider distribution and stronger marketing. Partly, also, customers have become more discriminating as loads have grown heavier in the industry and distances longer. "A great number of our customers today don't just drive back and forth between Felixstowe and London. Their vehicles have to go everywhere in Europe," says one executive.

But perhaps the most important factor against the small man is legislation. On the one hand labour regulations are making it more difficult to hire and fire men and therefore build up and run down operations rapidly. Employers have to try to think on a more long-term basis. On the other, vehicle safety and operating regulations are gradually growing tougher and more complex everywhere in Europe. These standards, which will gradually be harmonised throughout the EEC, mean that engineering can no longer be on a rough-and-ready basis; and as manufacturers strive to meet the legislation, while continually looking for ways of making the trailers lighter and stronger, the cost of research and development will strengthen the hand of the larger producers.

In all the three large European markets, Germany, France and the UK, this trend towards concentration of production appears to hold true. In each of these countries more than 50 per cent of the trailer industry is in the hands of three or

less producers. The same goes for the Netherlands, Italy, Belgium and Denmark. In Germany the two largest producers are Fruehauf, through its 98 per cent owned subsidiary Ackermann-Fruehauf, and Kassbohrer, reckoned to have 20 per cent and 30 per cent of the market respectively. In France, the two leaders are Fruehauf (about 25 per cent) and Trillor (about 32 per cent), which is a subsidiary of Pullman, the second largest U.S. trailer manufacturer after Fruehauf. In the UK the leaders are again Crane Fruehauf, now 100 per cent owned by Fruehauf Corporation, with about 44 per cent of the market, and York Trailers, with 25 per cent.

Fruehauf also owns the Netam company of Holland, where it recently raised its stake from 28 to 100 per cent, and has 20 per cent of the equity in Forus Parator, a company jointly held with Volvo and Scania, which also has plants in Norway and Finland. In Italy and Spain Fruehauf has licences, although it is currently in disagreement with its Italian company, Officine Calabrese. Because of the way in which it has moved into every significant market, Fruehauf, the biggest of the U.S. trailer manufacturers, with annual sales of about \$1.8bn, has clearly emerged as the dominant company in Europe. It is followed by Trillor, in which Pullman has a 58 per cent stake, and then by a group of more nationally-based operations such as York Trailers of the UK (although York now has an assembly subsidiary in the Netherlands) and Kassbohrer in Germany.

During the past year, both Fruehauf and Trillor have strengthened their positions. Fruehauf has completely taken over both its UK and its Netherlands associates, while Trillor has begun to expand from the small base it established in the UK about three years ago. At the same time, Fruehauf's position in the Netherlands has been strengthened by the decision of the DAF commercial vehicle group to move out of trailer manufacturing.

The most significant of these rationalisation moves was the takeover of the Crane Fruehauf company, bitterly fought through in the face of strong opposition in the UK, and delayed for one year by the Monopolies Commission investigation. The importance of this move is that the UK has provided consistently the best market for semi-trailers in Europe, although France is now coming up to the same level, and may have passed it last year. Germany makes more drawbar trailers, but in any case does not carry so much of its produce by road as the UK; France also makes greater use of its railways than the UK.

It is calculated that the total European trailer market now stands at about £800m a year, including Spain, compared with about £700m a year in the U.S. of this the UK accounts for about £300m, followed by

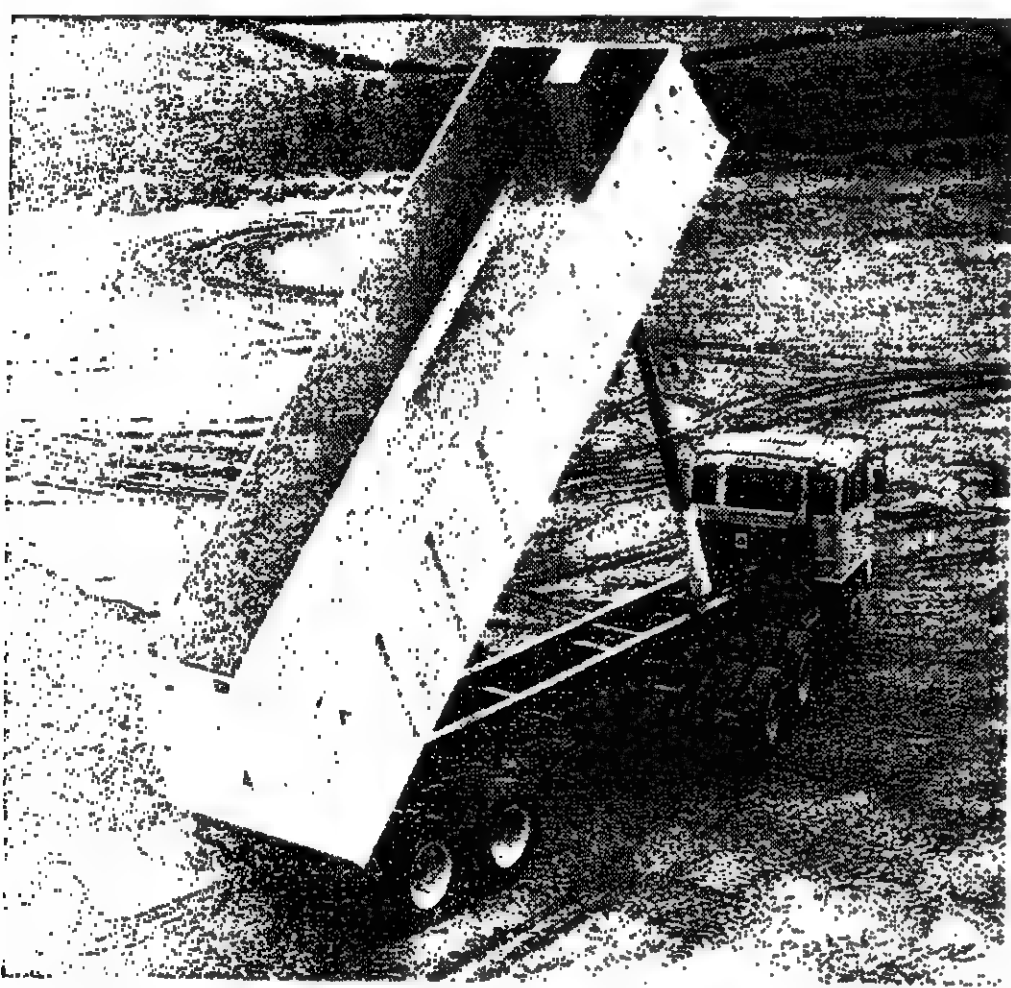
Vigorous

Trillor, with its recent incursion into Britain, is clearly thinking along the same lines. Whether any other European companies will have the resources to do the same is an open question. York Trailers, always a vigorous exporter from the UK has made it clear that it wants to play a larger role in Europe by exporting parts to its Netherlands assembly facility where they are made up into trailers of various kinds. But no one else has shown international manufacturing ambitions.

A more rationalised company structure is also being created by the move towards vertically integrated organisations. This has particularly affected the UK in recent years. York, for example, has acquired both Anthony Carrimore and Scammell Trailers, the former British Leyland subsidiary, in recent years, thus widening its product range. It has also developed a large-scale axle manufacturing facility, so that it now has the ability to make virtually any product from a chassis to a hoist, in-house. Similarly, Fruehauf has steadily expanded its product range, recently buying Penco and Abel Bodywork of Bolton, which specialises in the construction of refrigerated rigid vans. Fruehauf has also looked at the possibility of making its own axles in greater numbers, rather than buying in most of its supplies, as it does in the UK at the present, from Rubery Owen Rockwell.

One of the arguments against the Fruehauf takeover of Crane, indeed, was that, in the long term, it might mean a loss of business for Rubery Owen Rockwell, a British company, if Fruehauf decided to establish its own axle manufacturing. It still remains to be seen how accurate that argument was. But it is clear that Fruehauf has not yet ruled out plans to make its own axles; and it is equally clear that the big companies will continue to try and move towards more integrated structures both in Britain and across Europe.

T.D.



The latest range of heavy duty tipping trailer from Anthony Carrimore.

Coping with regulations

A LOT OF the European trailer market shows just how difficult it is to bring uniformity to a very fragmented market. Trailers are registered in France, Germany, Holland, Spain and Austria. In the U.K., Ireland and Italy there are some industry records, which are sometimes misleading or unreliable. But taken overall the market in these eight countries in 1977 was about 600,000 units, of which 20,000 were drawbar trailers and 580,000 were semi-trailers.

Market leader was the Fruehauf brotherhood, with over 18 per cent of the market, although the two biggest individual companies were

Trillor, in France, with 6.281, and Crane Fruehauf, in the UK, with 6.207. York was third with about 5.7 per cent overall. Very few companies operate throughout Europe — although their products will often be seen on the major routes — and in many markets large shares are held by a myriad of small builders.

Therein lies one of the principal problems facing the industry: its attempts, sometimes not very obvious, to harmonise such things as brake efficiency, axle weights, lengths, widths and heights. A platform on wheels to be towed behind some sort of tractor is a very basic piece of equipment which quickly

becomes complicated when other considerations are added. Total vehicle weight is the most obvious — there are maximum limits running from 50 tonnes in Holland down to 32.5 tonnes in the UK — but overall height is another and regulations which also cover the transportation of food form a third.

Gross vehicle weight and the number of axles required to carry it have been the subject of long wrangling and not a little political lobbying. While trailers are a simpler piece of machinery, no secondary decisions will be made about their construction until the overall problem is solved.

And this depends as much on other criteria, such as current engine ranges or model options among the various national builders, as on the apparent concern for the environment. The search for a common approach to heavy trucking in Europe has shown starkly some of the problems of "community" living and the way in which individual countries are very ready to find their individual solutions.

In the meantime the trailer builders gnash their teeth, the big ones because they cannot put into effect the economies of scale their capital investments demand, the small ones because they are faced with the costly business of a constant round of type approval formalities.

Whatever the eventual gross weights, however, this should not stop the EEC pushing ahead with the regulations. It wants to see on braking systems. The problem centres on stability, especially when heavy braking has to be applied on wet or slippery roads and the trailer is either lightly laden or unladen. In its report on the Fruehauf, Crane Fruehauf merger, the Monopolies and Mergers Commission points out that, to deal with this problem, the braking system likely to be adopted by the EEC will include load sensing devices, which control the degree of braking at the wheels of each axle depending on the load it carries.

In the United States, however, there is a different approach to the problem, and this is already backed by legislation. There they have decided to rely on

anti-lock braking systems. This relies on monitoring electronically, the rate of deceleration rather than the position of the load.

So far there is no compulsion backed by law in the U.K., but there is a voluntary agreement between the Department of Transport and the Society of Motor Manufacturers and Traders that all the tractor units should be fitted with these devices, and semi-trailers are also a logical extension.

Common minimum standards for some design features and performance characteristics for all road vehicles are also being drawn up to replace individual national requirements, most of which relate to safety and environmental considerations.

These "type approvals" have so far tackled the problem in a rather piecemeal fashion, with EEC directives being introduced to cover specific features rather than the whole vehicle. And individual members can decide whether to make the EEC directives mandatory, although they cannot refuse entry to vehicles from other countries which conform to the minimum standards laid down.

So far there has not seemed to be any great urgency to tackle the problem of international trucking. This is partly because of the growth of the environmental lobbies which have made governments look nervously over their shoulders before making any decisions.

Nor has there been any effective lobbying by the manufacturers, except in a negative way. The pressure of cost is not one which is clearly apparent; although there would be obvious benefits to some there are the complementary fears that others may suffer badly. Again this covers both the tractor and trailer side of the industry.

It is difficult to feel that the problem will be solved except as a joint package and only after a great deal more wrangling. In the meantime the industry is running out of the opportunist markets in the Middle East and Africa only to find that its own, very rich, back yard is a tortuous mass of brambles.

Stuart Alexander

Craven Tasker supply 900 refrigerated trailers to Denmark.

The new quality equation

CRAVEN TASKER + TASKERS TRAILERS = TASKER

For years, quality conscious British housewives have bought Danish bacon. For years, quality conscious Danish Bacon have bought British-built Craven Tasker refrigerated trailers to transport the bacon — over 900 already supplied. Speaking of quality, Craven Tasker also received the much coveted 1976 Design Council Award for their Tasklift trailer. Craven Tasker produce one of the most extensive range of trailers and vehicle bodies in Europe. Craven Tasker Ltd. factories at Sheffield, Andover, Woodville, Garstang and Cumbemauld.

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TRAILERS V

On this page Terry Dodsworth and Stuart Alexander profile the men responsible for running some of the major UK trailer manufacturers, with particular reference to their plans for the future.

The men in charge



Fred Schwab

"ENGLAND WAS necessary for us. Crane Fruehauf is going to be the cornerstone of our European business." This is how Fred Schwab, the American president of Fruehauf Europe, explains the long and bitter battle fought by Fruehauf Corporation for complete ownership of its UK associate. The idea, he says, was to create an integrated European group in the same way as Ford has done with its UK and German factories. "The fact that we have got the UK makes Fruehauf Europe a much more viable thing."

Mr. Schwab's job is now to make a reality of this European concept. He has already moved to Crane Fruehauf's office block, at Hayes, Middlesex, to begin work on the new Fruehauf Europe organisation. This will be an administrative, rather than a legal group, rather on the pattern of Ford of Europe. "I shall not build a great big empire of staff," he says, "because I have the complete business organisations in our national companies to draw on. I need a finance man, a marketing man, an engineer and a production manager. Only one of these, the finance man, will be an American."

The aim of this group will be to co-ordinate Fruehauf's European activities, which are split between wholly-owned subsidiaries in Germany, France, the UK and Holland, a 30 per cent stake in a Swedish company jointly owned with Volvo and Scania, and licensees in Spain, Yugoslavia and Italy. Co-ordination, says Mr. Schwab, can be fashioned in various fields. In the immediate future, he sees the most promising area as the joint buying of components. Whereas trailers are not likely to become absolutely standard throughout Europe in the near future, mainly because European regulations have not yet been harmonised, there is plenty of scope for standardising parts. But in Mr. Schwab's view this can only be done by a group which widely spread across Europe and which knows local conditions and regulations intimately enough to work out where the same parts can be used.

In the longer term, marketing

could also be co-ordinated to take advantage of the special contacts the national companies have formed overseas. Thus, while some of Fruehauf's subsidiaries can only supply one product, together they can provide a greater range and in this way pick up business for each other. There has been some criticism of the merger over just this point, with antagonists claiming that the UK company will now be excluded from exporting to areas where other members of the group may be given priority. But in Mr. Schwab's view the merger will help Crane build up its overseas sales. "Some of the smaller subsidiaries have exported more than this company in the past. What we want the UK company to do is to build on some of the contacts they have to expand its business."

The other area where rationalisation could come is in manufacturing. New production methods are being developed in the U.S. which demand large volume to justify the investment in machinery. Fruehauf's new European scale could provide this justification, says Mr. Schwab, with its separate production units specialising in certain fields. "You have to have centralised production points to make these things viable."

Mr. Schwab, who has just spent four years with Fruehauf's German subsidiary, does not believe that all these developments will come quickly. But he argues that the European market is gradually moving in this direction, becoming more integrated as the EEC grows into an economic reality, forcing industry within the Community to behave more on the American fashion. "There will be fewer trailer manufacturers in the business in Europe in years to come," he says. "We have to take advantage of our size."

Jeff Harrison

TO BREAK into the UK market for trailers in a big way—a market that is acknowledged by all to be fiercely competitive—requires a thick skin, sound understanding, a fair amount of cash, and a shrewd strategy. It will also take some time.

But Jeff Harrison, managing director of Trailer (UK), is convinced that in five years he will be operating in a major way in the UK and in ten years should both have a substantial slice of the business and be profitable.

A tall order in a volatile business, especially as, at first, Trailer will be assembling components brought in from France, with all the difficulties of cost competitiveness that that implies.

The main tenet behind the Trailer move is a belief that the only way to expand in Europe is to operate within each market. There is very little trans-border business—though Trailer already claims about 4 per cent of the UK market—and the UK market is the second biggest in Europe. Biggest last year was France,



Henry Booker

where Trailer is based. The company is 66 per cent owned by Pullman, the U.S. builder, the rest being quoted on the Paris bourse. Trailer bought the trailer building division of Peak Trailers as part of its entry into the UK, but this was more to give it a small assembly base than to buy design and management potential. Mr. Harrison was brought in from York Trailer, where he had worked closely with chairman Fred Davies who had recruited him from the advertising agency that used to handle the York account.

The plan now is for Trailer to open a service and repair facility alongside the motorway at Mansfield, in Nottinghamshire, which will also set aside some space for trailer assembly. Next year another depot will be opened in the London area, and the manufacturing capacity increased.

At the same time Trailer will seek to increase the percentage of local component content as well as looking for cost benefit from the use of UK workforce. Materials account for about 70 per cent of the cost of a trailer, so any savings that can be made in this area will be needed.

Jeff Harrison sees the UK as a major discipline for Trailer, a base for benefits which could be passed on to all the other operating companies. This is purely because the UK market is so competitive. If he can succeed here he feels that Trailer will be able to succeed throughout Europe, which is where the future will be decided. He also points to diminished exports in the first two months of this year as a warning for the future.

He says that Trailer has been careful to present a European rather than a French image, a line of approach not always typical of the often very nationalistic French.

Rentals, he expects, will be increasingly important in the UK, where the willingness to rent is second only to the U.S. and is far more developed than the rest of Europe except those areas, such as Rotterdam, which have become the great goods handling crossroads.

Trailer will also offer vehicles to rent, partly to even out the production and sales peaks and troughs and partly because there is a genuine need in the market place to give the operators more flexibility. He expects

the tendency to be for operators to own now more than 80 per cent of their requirements and then top up with rented equipment to meet business demand.

As well as being a necessary customer service Mr. Harrison also sees the rental and contract hire side as a sales stimulus. An operator will be able to convert a rental to a purchase if he sees some permanence in increased business momentum and there are both financial and emotional incentives to keep the vehicles he already has.

While he hopes that some sort of uniformity can be imposed on the European market, he accepts that it may take some time, another reason for establishing Trailer close to each market. But he hopes that the existing widespread marketing experience which accrues to a pan-European company will help to put Trailer in the lead.

The company is already the second biggest builder in Europe, with about 9.9 per cent of the total European market of 66,000 trailers last year. But this is still a long way behind the 18 per cent plus held by the various arms of Fruehauf.

And in third place is York Trailer, the company he left to join Trailer. It even a man deliberately tied a five-cracker to his own tail, Jeff Harrison has done it. Presumably as the personal choice of the difficult to please Fred Davies, he is the man to bring it off.

S.A.

Henry Booker

"THE BRITISH trailer industry can be proud of its record in the last few years. Despite the slump in business at home companies have gone out and won export sales while overseas businesses were collapsing. I think we have carried the Union Jack very successfully." This is Henry Booker, managing director of Crane Tasker, the third largest company in the British industry, describes the strategy which has managed to keep Crane Fruehauf, York Trailer and his own company intact in the last few years, along with a number of smaller, specialised groups.

Crane Tasker, a subsidiary of the John Brown group, and formed from a combination of Cravens, Homalloy and Taskers, has won exports in some difficult markets during the last decade: it has delivered 900 refrigerated vans for Danish Bacon, similar vehicles to the Russians, and low loaders to the Arabs. The key to its success in these markets, says Mr. Booker, is quality: "We get these orders because of quality and price. John Brown as a group puts a lot of emphasis on quality. You don't do any good in our outfit by making shoddy, cheap goods."

Cravens has increasingly put the emphasis on specialisation in the face of the recent depression. Even on fairly standard products such as skeletal trailers, it tries to add in extra quality: just to improve these units it has installed a short-blasting machine which gives an



Fred Davies

extremely clean base on which to apply paint with a better chance of avoiding rust. For skeletal trailers this is an important item, since they spend a lot of time standing at docks where they are exposed to corrosive elements. The acquisition of Tasker when it was going through a difficult patch about eight years ago was another move towards a more specialised business. Tasker came to prominence during the war as a manufacturer of recovery vehicles for the RAF, and Craven saw the opportunity of building on this area of skill, particularly in the developing North Sea equipment market.

Low loader exports have gone up to various parts of the world, and in 1976 the company won the Design Council award for a new product which could be lowered to take on a load very quickly using only one driver.

"At the time many people in the industry thought it was just another new design," says Mr. Booker. "But it caught on, and during the construction slump when everyone else's sales were dropping, ours were going up." A similar strong area of business has been in recovery trailers for the army, where the group has strong links.

After absorbing the Tasker merger, the Craven Tasker group has now become the third force in the UK industry with about 15 per cent of the market. It is more specialised than either of the two larger groups, Crane Fruehauf and York Trailer, and Mr. Booker believes that although these two companies are themselves branching out into these areas of greater craftsmanship, top management ready for

Craven can consolidate its hold in these areas. Turnover should amount to about £20m this year, about one-third of Crane's.

In export markets he sees further opportunities opening up in Europe. "We are looking at this closely. The entrée is Holland. The Dutch are the carriers of Europe," he says.

But there will also be efforts to move into new product areas. Perhaps the most important of these is the tilt trailers—the curtain-sided vehicles which have become extremely popular on both international routes and in the domestic market when a quick turnaround time is required.

The idea of these trailers is to allow access on three sides, while still providing a secure load which one man can deal with. Mr. Booker has been particularly impressed in this field by the Tautliner concept developed by Boillot, to become a winner of a Design Council award in the same year as the Tasker low loader, and now selling about 1,500 units a year for both new and used trailers.

"We are taking steps to increase significantly our participation in this area," he says.

T.D.

Fred Davies

"WHEN I came to this country I found some manufacturers stagnating in prosperity. So I went to BRS with some ideas, they welcomed a new face, gave me my first order and I was in business." Fred Davies, now 72 but still very much in control of York Trailer, has built up his company to number two position in the UK and the third biggest in Europe since introducing the Freightmaster in 1969.

"I intended to stay a couple of years but got swinging on the end of a tiger and couldn't let go," he says with the result that as well as having diversified into components in the UK there will also be two York factories operating in Holland by the end of this year, and it is clear that York is by no means at the end of its take-over trail.

There are three major tasks facing Fred Davies as he seeks to round off a life-time's work in the trailer business. First is to crack the very complex market of component manufacture as a base for the expansion of the



Fred Davies

succession and third to complete the overall shape of York Trailer.

"Whoever takes over will have a first class ship," he promises.

The take-overs of Scammell Trailers from British Leyland and Anthony Carrimore, which specialises in tipper hydraulics, have both proved very successful, says Mr. Davies.

He is less happy with the delays to harmonisation of EEC regulations and decisions on maximum weights and configurations. He slams Government procrastination which, he says, interferes with capital investment on the basis of "thoroughly specious reasons." Like most in the automotive business, especially concerned with commercial vehicles, he would like to see any set of rules agreed upon rather than a continuation of uncertainty.

In the meantime York is concentrating on Benelux for improved investment opportunities in Europe. West Germany is also being studied and there is the possibility of trying to establish itself in Europe. But Italy is dismissed by Mr. Davies as an early prospect.

As the opportunist markets of the Middle East and Africa lose their appeal he sees the test of real success in Europe, though it is always possible that the company could complete the circle and look for a link back in Canada, where the holding company is registered and where Mr. Davies is still a citizen.

Back home (that is, the UK) he is keen to see more vertical integration, using the expansion of component manufacture as a base for the expansion of the

whole business. While manufacture of components is a way of squeezing a few extra percentage profit points out of a highly competitive business, York has also seen components become the dominant factor in export sales.

These went up by 30 per cent in 1977 to £14.1m, and of that 75 per cent, was brought in by York Technical Services, the components arm of the Trailer company.

As well as axles—we are in competition with Rubery Rockwell—it is likely that York will eventually move into other engineered parts such as suspension and seek to sell them to other trailer manufacturers. As for the market in the UK Mr. Davies sees little change in volumes this year. But he hopes that it may prove more profitable and that the industry will reduce the level of price-cutting. His own company, he says has tightened up its pricing disciplines and this has led to increased profits.

Productivity has been improved and York has never been as flexible in striking a deal as some of its opponents. But in a market which can be so fragmented and where two men with an oxyacetylene welder can set up in business any day of the week it is hard to bring big company financial controls in line.

However, York has managed to keep its borrowing ratio low while at the same time building trailers for delivery from stock and preparing to increase its rental side of the business.

Fred Davies was born outside London but went to Canada when he was 20. He eventually ended up selling trailers for Fruehauf in South America before returning to Canada and becoming president of Trailmobile, the biggest trailer builder there.

Now a grandfather he has made his own fortune with the single-minded determination typical of the North American pioneer despite starting when he was over 50. As well as playing golf "indifferently" he now has a farm in Canada with a small herd of cattle "which gives me the privilege of putting my feet on a five-barred gate."

But before he can get down from the saddle he has still to tie up the loose end that will package the business as he wants to see it.

S.A.

The small manufacturer

"THE SMALL" builders are going to take a much bigger share of the market because we will win the inevitable price battle that is round the corner.

"We are faster on our feet, can keep operating costs very low, and specialise in better products."

"The product will help us win."

These comments come from Hector Tidd who moved from North London seven years ago to begin building van-bodied trailers in glass-reinforced plastic and plywood sandwich at St. Neots, in Huntingdonshire. Having pioneered the technique and weathered a few hiccups along the way, he claims that business has picked up strongly in the last two years and the company is now ready to take a closer look at the difficult European market.

Small builders in the UK take just over 7 per cent of the market, according to industry sources, which is rather less than in some other European countries. In France they account for about 32 per cent, in Italy nearly 40 per cent, in Austria 36 per cent, in Holland 50 per cent, in Belgium 57 per cent, and in Germany 58 per cent. So there is plenty of scope for the smaller builder in Europe, although the existing bigger producers would argue that the trend must be set against small operations, particularly if regulations on size and mechanical specifications can be agreed within the EEC.

Even then the role of the small builder is faced with many question marks, mainly because the trailer is such a simple thing to manufacture, in

its basic form, and there are other conflicting basic trends. In other areas of the automotive industry too there is some argument over the future pattern of manufacturing. On the one side are those that say the vehicle builders should stick to their skill in assembly and marketing, passing on the benefit of volume in the form of more competitive prices.

On the other are those that favour vertical integration, giving the manufacturer control both of final product and component input. This is the route now favoured by Mr. Fred Davies, chairman of York Trailer. It gives him both the opportunity to squeeze extra margin out of the end-product while at the same time increasing export potential in a world market that is increasingly looking to local manufacture.

While developing countries may quickly be able to establish simple assembly workshops, and even produce their own steel bars, it will take far longer to develop, design and manufacture the more complicated components.

But the argument that the specialist assembler will win the day is one that also has attractions. Component commonality is a development that seems highly likely in an EEC that eventually makes up its mind about regulations. In that case the big component manufacturers will need as much volume as they can muster to be competitive.

So there will be plenty of hits for the small assembler to choose from. And he will have the added advantage of low capital investment coupled with close contact with a smaller

market. And the problem of service and maintenance will be alleviated by the commonality of parts which has given him an advantage. As Mr. Tidd says, specialisation and product quality will then be powerful sales weapons which could reverse what should be the normal trend of the big becoming bigger and the small being squeezed out.

Certainly the Tidd Strongbox example of a manufacturer specialising in a particular technique which can be sold either as a product or even as know-how is an interesting one. Mr. Tidd claims that its sandwich boxes are as strong as steel but significantly lighter. And having decided on the technique of manufacture they have stuck to it. They have also recognised the need not only to specialise in method of construction but in the type of customer the products are aimed at.

Choice

In its case Tidd has been able to sell strongly to food manufacturers, retailers and wholesalers as the boxes are smooth-sided and easy to clean. The choice of St. Neots as a manufacturing and marketing base was made on the grounds of suitability rather than looking for an area where there were more Government inducements. And Tidd says it is pleased with the choice.

More difficult has been the attempt to spread wings into Europe. Hector Tidd is still determined to tackle the market in Belgium and Holland but points the difficulty of finding really good agents who will work

enthusiastically on behalf of a small builder. Many, he says, are more than ready to accept attractive introductory offers. More difficult is the task of finding one that will stay with the new allegiance to develop a long-term market. Some are content merely to take a quick profit and disappear. Also difficult and expensive for the small builder is the tortuous path through type approval regulations in each country.

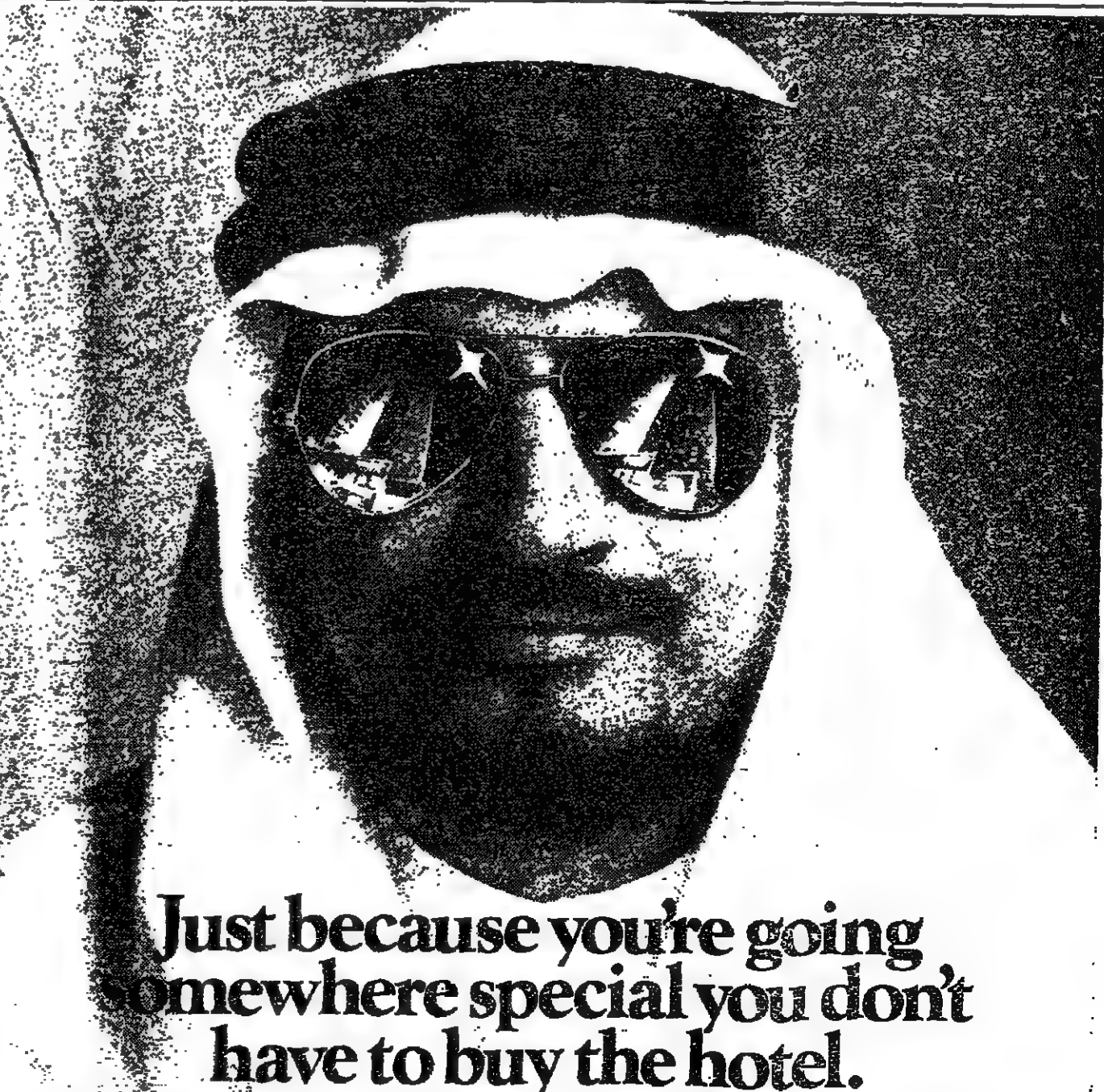
As well as the cost of building and transporting the trailers there is an additional £1,500 fee payable to the Ministry of Transport. The total is just too great for the committed small man. For the small man trying to grow it is a costly gamble that does not always pay off.

Once in Europe there are opportunities for joint ventures both in the choice of components and in sales, servicing and repairs. This is the route that Hector Tidd expects to take by selling a specialist product, or sometimes production know-how, through an established chain in Benelux but keeping the manufacturing base in the United Kingdom.

He feels that Tidd can overcome the transport costs and still be able to offer the benefits of efficient manufacture in the U.K.

There is undoubtedly a great deal of expertise within the small companies in the U.K. trailer business. But it will take the extra factor of highly developed entrepreneurial skills, careful choice of allies, and a rather better-than-average grasp of financial management and EEC legislation, to survive.

S.A.



Hotels rent rooms the way TIP rent trailers. They're there when you want them, but not if you don't.

And like all the best hotels, TIP offer customers a pool to dip in when they want to.

Except ours has 10,000 trailers in it. In 18 different trailer types. Available from no fewer than over 30 strategically sited rental centres throughout the UK and Europe.

Which means wherever you're going, whatever you're hauling, there are TIP trailers tailor-made to cope with the load. The route. The climatic conditions.

And just like renting a room in a hotel, you know precisely what you're in for before you

commit yourself to pay for it.

So you can take on extra commitments with confidence. Without committing yourself to the expenses of buying and running extra trailers of your own.

Gone are the days of buying first and asking questions afterwards.

For more information please contact us at Head Office, Transport International Pool, Star House, 69/71 Clarendon Road, Watford, Herts. Telephone: Watford 48311. Telex: 897326. And your TIP area manager will be in touch.

We've plenty of room for customers like you.



OVERSEAS MARKETS

EUROBONDS

U.S. interest rates dominate market

ALTHOUGH EURODOLLAR interest rates have declined this week the prospect for further rises in U.S. domestic rates currently dominates the international bond market. By Friday night the indications from the New York money market were that the target rate for Fed funds—the charge on money which banks lend to each other—was 7.75 per cent, a quarter point higher than earlier in the week and three-quarters of a point higher than a month ago.

The news that the latest U.S. money supply figures, recording a large fall in the most recent reporting week, had pushed the rate of growth even of M1 (the narrowly defined money stock) back down towards the target range again did not seem to have altered the Fed's intention of pushing up interest rates.

A clarification of the trend of dollar bond yields will happen this week when pricing is expected for several of the Yankee bonds on offer. The upward pressure on short-term interest rates, which the latest Fed fund indications suggests, comes at a time when the yield curve is already much steeper than international investors have become accustomed to. To take the most

extreme current example the nominal interest rate on the seven-year Volkswagen placement, which is reportedly being arranged by Commerzbank, is a half a percentage point higher than the rate on overnight Eurodollar deposits. Even after allowance for the 17 per cent selling commission, the yield to final maturity is still less than on one year money.

The terms of this placement are tighter than on other offerings on the international bond market at present. However, unless international investors take a more optimistic view of the dollar currency than secondary market demand has suggested recently, the comparison of Volkswagen with money market funds suggests the kind of pressures to which international bond yields may be subject, if the latest developments in U.S. short-term rates are not reversed.

Some issue managers have already taken account of this. The terms of Ontario Hydro's issue do not look over generous now but when first announced they were said by some to reflect interest rate expectations rather than current yield levels.

As a result the lead manager is expected to open secondary market trading today within the selling group discount. The argument is even more true of the 9 per cent coupon being issued by National Westminster Bank on its eight year issue.

The most surprising feature of the Ontario Hydro offering is that it is part of the bank's normal fund-raising activity and apparently has nothing to do with its \$300m proposed purchase of National Bank of North America. It was emphasised on Friday that the current \$200m issue would have happened even if the proposed takeover had never been mooted. The market will therefore be expecting further fund-raising by NatWest if the purchase goes through.

It was also made clear on Friday that NatWest has no plans for an equity or equity-linked issue in the foreseeable future. Whether it will stretch the market to raise funds on the U.S. market in order to finance an investment within the U.S. is also regarded as questionable.

The terms of the NatWest floating rate note (FRN) are particularly tight except in so far as the will stretch the market to raise funds on the U.S. market—12 years is exceptionally long for an FRN.

However since the main complaint in the FRN sector recently has been a lack of good quality issues—even a lack of paper generally—the maturity is not expected to be much of a drag on the issue.

The European Investment Bank's latest dollar offering is generally regarded as being on the tight side. However although formally presented as a standard Eurobond placement, it is

expected to take advantage of a recent relaxation in selected foreign stocks. Management group sources for the new issue said that as a result of the change, Italian investors are now permitted to purchase the selected stocks notably issued by European institutions, as a part of a switch operation with not having to make the onerous 50 per cent deposit with the Bank of Italy.

One notable feature last week was the resurgence of Canadian dollar issues. The Canadian dollar closed the week at nearly 91 U.S. cents compared with a 48-year low of 86.92 U.S. cents in mid-April. By the end of last week, the secondary market prices of bonds were slightly higher than the high points reached earlier in the week. However, some houses have already started to approach potential borrowers with a view to reopening this sector should the recovery of the currency continue.

The D-mark sector was helped last week by the Bundesbank's moves to inject new liquidity into the domestic money market. However, uncertainty remains over the major feature of the domestic bond market, particularly in the expectation of a rise in interest rates.

BY MARY CAMPBELL

U.S. DOLLARS

125 1985 7 81 99 1/2 Deutsche Bank 8.60
100 1985 7 81 99 1/2 Dean Witter 9.07
100 1985 7 81 99 1/2 Morgan Stanley
100 1985 7 81 99 1/2 Goldman Sachs
100 1985 7 81 99 1/2 Salomon Bros.
100 1985 7 81 99 1/2 Dillon Read
100 1985 7 81 99 1/2 Merrill Lynch Int.
100 1985 7 81 99 1/2 Hambros
100 1985 7 81 99 1/2 Orion
100 1985 7 81 99 1/2 Merrill Lynch
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100 1985 7 81 99 1/2 Kipper Peabody
100 1985 7 81 99 1/2 Inst. Bank S. Paolo
100 1985 7 81 99 1/2 Commerzbank
100 1985 7 81 99 1/2 County, CSWW, Orion
100 1985 7 81 99 1/2 County, CSWW, Orion
100 1985 7 81 99 1/2 County, CSWW, Orion

D-MARKS

100 1984 5 5 100 Deutsche Bank 3.79
100 1984 5 5 100 BHF Bank 3.79
100 1984 5 5 100 Wiedl 3.79

GUILLERMO

125 1993 10.5 7 100 AmRo 7.25

SWISS FRANKS

100 1990 n.a. 4 100 UBS 4.55
100 1990 n.a. 4 100 Banque von Ernst 4.0

YEN

100 1990 10.32 6.3 99.5 Nikko Sec. n.a.
100 1990 10.32 6.3 99.5 Daiwa Sec. n.a.

KUWAITI DINARS

100 1985/90 1 8 100 KFTIC, Merr. 8.25
100 1985/90 1 8 100 Lynch Int. 8.25
100 1985/90 1 8 100 KIC 8.25

* Not yet priced

† Final terms

‡ Placement

§ Floating rate note

|| Minimum

¶ Convertible

||| Registered with U.S. Securities and Exchange Commission

|||| Note: Yields are calculated on an annual basis.

Indices

NEW YORK—DOW JONES

May 19	May 18	May 17	May 16	May 15	May 14	High	Low	High	Low
Industrial	846.85	850.37	855.87	854.50	848.78	840.70	858.37	743.12	101.70
High	846.85	850.37	855.87	854.50	848.78	840.70	858.37	743.12	101.70
Low	846.85	850.37	855.87	854.50	848.78	840.70	858.37	743.12	101.70

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N.Y.S.E. ALL COMMON

May 19 1978

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May 9 1977

May 8 1977

May 7 1977

May 6 1977

May 5 1977

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OFFSHORE AND OVERSEAS FUNDS

[illegible][illegible]

NOTES

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Index Fixed Interest Capital	128.00
Index Fixed Interest Income	113.80

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† Property Growth	91%
† Vanbrugh Guaranteed	84%

* Address slowly via † Insurance and Property Bond Table.

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